



medibank

Annual Report

2017

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View **Medibank's Annual Review 2017** to find out more about our business and performance:

medibank.com.au/annualreview

ABOUT MEDIBANK

Purpose

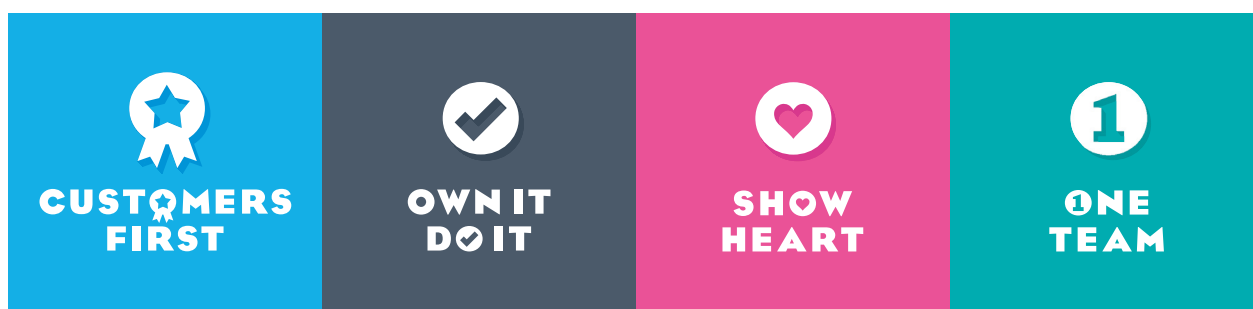
Better Health for Better Lives

Ambition

To deliver Better Health for Better Lives we will:

- Broaden the offering of our Medibank and ahm brands to deliver the best combination of products, service and advice for our customers.
- Build a market leading health services offering for our customers.

Values



“Medibank has an increasingly important role to play in helping our customers live healthier and happier lives. To do this, we are embracing a bigger purpose – Better Health for Better Lives.”

Craig Drummond, Chief Executive Officer

During the year Medibank provided private health insurance under our Medibank and ahm brands, supporting customers through more than 1.3 million hospital admissions and 500,000 surgical procedures, and around 23.5 million extras services. We also distributed travel, life and pet insurance.

In addition, Medibank provided a range of health services in Australia including mental health support, preventative and better integrated primary care, after-hours health support, and healthcare for the 60,000 permanent and 20,000 reservist uniformed Australian Defence Force personnel.

FINANCIAL SUMMARY

All data is presented on a statutory basis

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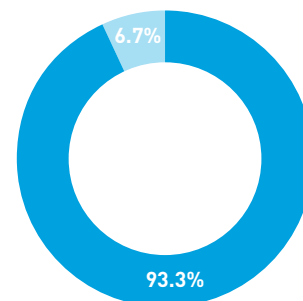
cents per share

Total dividend for 2017
(interim and final) fully franked

Group net profit after tax (\$m)

2017	\$449.5m
2016	\$417.6m
2015	\$285.3m
2014	\$130.8m \$251.8m*
2013	\$232.7m

Composition of 2017 segment operating profit (%)



● Health Insurance ● Medibank Health

Health Insurance premium revenue (\$m)

2017	\$6,244.9m
2016	\$6,172.5m
2015	\$5,934.8m
2014	\$5,648.7m
2013	\$5,344.1m

Health Insurance net claims expense (including risk equalisation) (\$m)

2017	\$5,179.0m
2016	\$5,145.8m
2015	\$5,092.9m
2014	\$4,884.3m
2013	\$4,630.9m

Health Insurance operating profit (\$m)

2017	\$497.5m
2016	\$510.7m
2015	\$332.2m
2014	\$250.8m
2013	\$204.3m

Health Insurance gross margin (%)

2017	17.1%
2016	16.6%
2015	14.2%
2014	13.5%
2013	13.3%

Health Insurance management expense ratio (%)

2017	9.1%
2016	8.4%
2015	8.6%
2014	9.1%
2013	9.5%

Health Insurance operating margin (%)

2017	8.0%
2016	8.3%
2015	5.6%
2014	4.4%
2013	3.8%

* Excludes impairment and restructuring expenses in 2014 (\$134.7 million before tax; \$121.0 million after tax) in relation to the write-down of goodwill mainly associated with the Telehealth business and costs incurred in relation to the reorganisation within Medibank Health.

BUSINESS SNAPSHOT

3.7 million+

Number of customers

**2,859
employees**

including 640 health professionals*

Number of full-time equivalent employees.
* As at 30 June 2017. Around 250 additional health professionals joined Medibank through our HealthStrong acquisition in July 2017.

**80%
improvement**

to two minutes

Average speed of answer in our customer service centre (Q417 vs Q416).

\$5.2 billion

Benefits paid to our customers

475

Members' Choice hospitals

14,000+

Members' Choice extras providers

1.6 million+

Number of customers receiving greater value through new and extended benefits

1.3 million+

Hospital admissions supported

500,000+

Surgical procedures supported

23.5 million+

Extras services supported

* Calculation based on different methodology compared to 2016.

1.7 million+

Number of interactions with Australians through our telehealth services

11,614

Number of participants enrolled in CareComplete to date

50%

Proportion of senior leaders who are women

81%

Employee engagement (up from 78%)

\$6.3 million

Community investment including sponsorships and partnerships

26.93%

Market share

CHAIRMAN'S MESSAGE



I am pleased to present Medibank's annual report for the 2017 financial year. It has been a year of transition for Medibank, with Craig Drummond coming on board as Chief Executive Officer. His leadership has re-energised the business and strengthened our investment in, and focus on, our customers.

Our progress in overhauling service, launching a range of new products and providing increased value to our customers has delivered another good result. This in turn has allowed us to pay a dividend for the year totalling 12 cents per share fully franked, comprising an interim dividend of 5.25 cents per share and final dividend of 6.75 cents per share.

Australia has a world-class health system and I am proud of the significant role Medibank plays within it. During the year we supported our customers through more than 1.3 million hospital admissions and 500,000 surgical procedures, and around 23.5 million extras services.

That said, rising healthcare costs continue to put upward pressure on premiums. This has had a significant impact on the household budgets of Australians, with the participation rate in private health insurance the lowest in four years. We continued to work closely with government to deliver greater transparency, affordability and value for our customers and to support the long-term sustainability of Australia's public and private health systems. This will continue to be important in the year ahead.

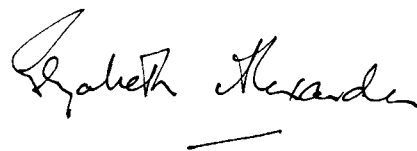
I am delighted to welcome two new directors to the Medibank Board who will add a great deal to Medibank as we look to further strengthen our relationship with customers, and expand our role within the health industry.

Mike Wilkins joined us in May 2017, bringing with him more than 30 years of experience in financial services, a strong track record in transforming culture as well as a passion for customer service. We also announced the appointment of Dr Tracey Batten from August 2017, who is an experienced clinician with over 25 years of experience in the health system both in Australia and overseas.

Tracey's appointment follows Dr Cherrell Hirst's decision to retire from the Medibank board. On behalf of the directors, I would like to thank Cherrell for her significant contribution to Medibank over the past eight years and wish her all the best in the future.

I also wish to thank Craig, Medibank's management team and all of our employees for their tireless efforts over the last 12 months, and in particular for their committed focus on improving the experience of our customers.

Our performance in 2017, coupled with your continued support, holds your company in good stead for the future.



Elizabeth Alexander AM
Chairman

CEO'S MESSAGE

The 2017 financial year has seen Medibank make significant improvements to the service and experience we deliver to our customers. This was one of my top priorities when I joined the business last year, and it will continue to be a key focus in 2018.

Medibank's Group net profit after tax (NPAT) increased by 7.6 percent to \$449.5 million in 2017, primarily due to net investment income increasing by \$80.0 million, more than offsetting a lower operating profit for the Health Insurance business of \$497.5 million.

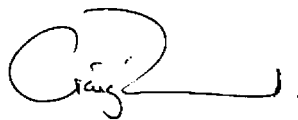
The performance in the Health Insurance business in part reflected our increased investment in customer initiatives and focus on strengthening our core, improving healthcare value and expanding Medibank's customer offering.

This investment is making a difference. During the year our share of complaints to the Private Health Insurance Ombudsman nearly halved and the average call wait time in our customer service centre dropped significantly. We launched new products for both the Medibank and ahm brands which performed strongly, and gave value back to more than 1.6 million of our customers through new and extended benefits. We also bedded down our new IT system and successfully navigated the premium review and tax statement cycles.

We paid a record \$5.2 billion in benefits to our customers in 2017. Costs in the health system continued to increase and our ongoing challenge is to get the balance right between meeting these rising costs and ensuring our products remain affordable and meet customers' needs. While our average premium increase in 2017 was the lowest in 15 years, we need greater transparency within the health system to give our customers a better deal. This will continue to be a focus for Medibank going forward.

Medibank Health, which was previously known as Complementary Services, recorded an increase in operating profit to \$35.7 million. We are on track to more than double the share of segment operating profit this business contributes by 2019. Medibank Health will play a bigger role in the future as we look ahead to further diversify our business and integrate more health into our customers' experience.

Our success this year in reorientating Medibank to customers has positioned us strongly for the year ahead. But we are not there yet. The more we do to strengthen our relationship with customers, the better placed we are to pursue strategic growth opportunities that will benefit customers and shareholders alike.



Craig Drummond
Chief Executive Officer



OPERATING AND FINANCIAL REVIEW

1. About Medibank

Medibank Private Limited (Medibank) is a leading private health insurer in Australia. Medibank's core business is Health Insurance, whereby it underwrites and distributes private health insurance policies under its two brands, Medibank and ahm. Medibank also has a group of related businesses known as Medibank Health, which was previously referred to as Complementary Services. Medibank Health leverages Medibank's experience and expertise to provide and co-ordinate health services, and support the Health Insurance business. As Medibank maintains assets to satisfy its regulatory reserves, it can also generate significant investment income from its portfolio of investment assets.

Medibank was founded in 1976 as a private health insurer owned and operated by the Australian Government. It has operated on a for-profit basis since 2009. On 25 November 2014, Medibank was sold by the Australian Government by way of an initial public offering (IPO) and listed on the Australian Securities Exchange. As at 30 June 2017, Medibank had 2,859 full-time equivalent employees, including 640 health professionals.

2. Financial and operating performance

References to "2016" and "2017" are to the financial years ended on 30 June 2016 and 30 June 2017, respectively, unless otherwise stated. The "Group" or "Company" refers to the consolidated entity, consisting of Medibank and its subsidiaries.

2.1 Group summary income statement

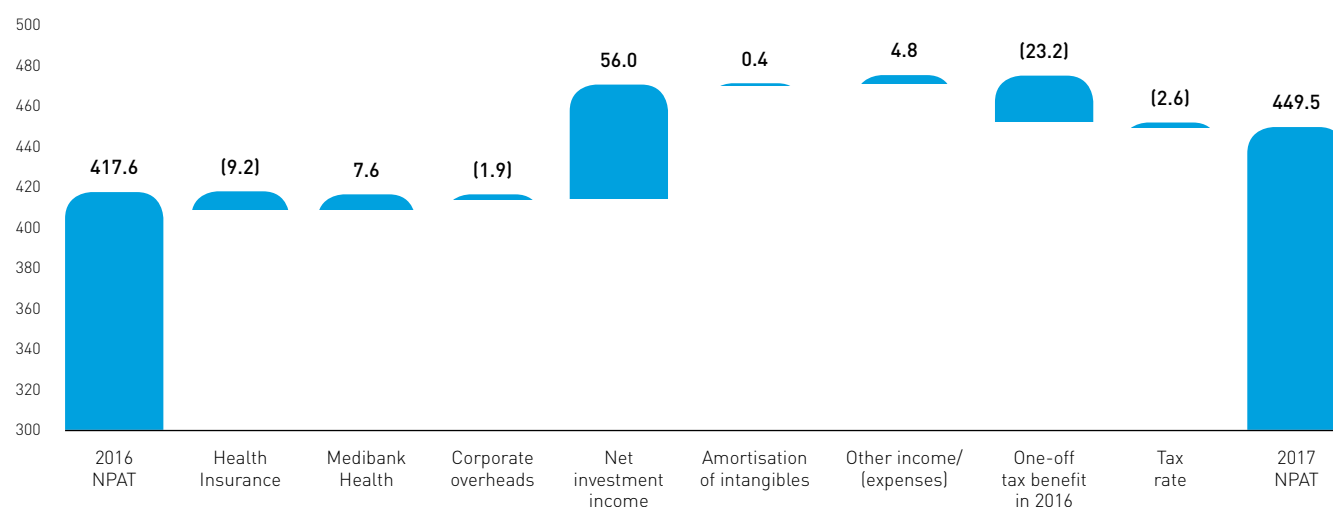
Year ended 30 June (\$m)	2017	2016	Change
Health Insurance premium revenue	6,244.9	6,172.5	1.2%
Medibank Health revenue	552.1	569.3	(3.0%)
Revenue	6,797.0	6,741.8	0.8%
Health Insurance operating profit	497.5	510.7	(2.6%)
Medibank Health operating profit	35.7	24.8	44.0%
Segment operating profit	533.2	535.5	(0.4%)
Corporate overheads	(32.7)	(30.0)	9.0%
Net investment income	139.3	59.3	134.9%
Amortisation of intangibles	(7.0)	(7.6)	(7.9%)
Other income/(expenses)	(4.1)	(10.9)	(62.4%)
Profit before tax	628.7	546.3	15.1%
Income tax expense	(179.2)	(128.7)	(39.2%)
Net profit after tax	449.5	417.6	7.6%
Earnings per share (cents)	16.3	15.2	7.6%
Dividend per share ¹ (cents)	12.0	11.0	9.1%

1. The 2017 dividend comprises an interim dividend of 5.25 cents per share and a proposed final dividend of 6.75 cents per share. The 2016 dividend comprised an interim dividend of 5.0 cents per share and a final dividend of 6.0 cents per share.

Net profit after tax (NPAT) increased by \$31.9 million or 7.6 percent, from \$417.6 million in 2016 to \$449.5 million in 2017. This was principally due to net investment income increasing by \$80.0 million or \$56.0 million after tax, partially offset by:

- Health Insurance operating profit decreasing by \$13.2 million or \$9.2 million after tax due to increased investment in customer benefits, customer initiatives and new IT system amortisation; and
- a higher income tax expense in 2017 due to a one-off tax benefit of \$23.2 million in 2016. This related to a change in tax position for prior periods endorsed by the Australian Taxation Office in December 2015 resulting in a previously unclaimed tax deduction being allowed in 2016.

2017 NPAT result – analysis of movements (\$ million)¹



1. For all items other than one-off tax benefit and tax rate, amount is based on pre-tax movement less 30 percent allowance for tax.

The key reasons for the movements in the Health Insurance and Medibank Health results, and net investment income, are outlined in this report.

Health Insurance

Year ended 30 June (\$m)	2017	2016	Change
Health Insurance premium revenue	6,244.9	6,172.5	1.2%
Net claims expense (including risk equalisation)	(5,179.0)	(5,145.8)	0.6%
Gross profit	1,065.9	1,026.7	3.8%
Management expenses	(568.4)	(516.0)	10.2%
Operating profit	497.5	510.7	(2.6%)
Gross margin	17.1%	16.6%	50bps
Management expense ratio	9.1%	8.4%	(70bps)
Operating margin	8.0%	8.3%	(30bps)

OPERATING AND FINANCIAL REVIEW

continued

The Health Insurance business contributed 91.9 percent of Group revenue and 93.3 percent of segment operating profit in 2017. The Health Insurance business operates a single health fund through its two brands, Medibank and ahm, which are managed on an overall portfolio basis with an emphasis on Group outcomes. In 2017, 97.8 percent of Health Insurance revenue came from resident health insurance policies sold to retail and corporate customers, with the balance from overseas visitors' and students' health cover policies.

Premium revenue increased by 1.2 percent. This increase was underpinned by Government-approved average premium rate rises of 5.64 percent effective from 1 April 2016 and 4.60 percent effective from 1 April 2017. Average revenue per policy increased by 3.8 percent reflecting cover reductions and sales mix changes towards lower priced products.

The number of members decreased by 1.6 percent, from 3.80 million to 3.74 million, in a market which recorded the lowest level of growth in over a decade due to a fall in the health insurance participation rate. Encouragingly, the rate of decline in Group market share slowed in 2017, especially later in the year. Market share was 26.93 percent at 30 June 2017.

Although Medibank brand volumes were down, acquisition improved slightly in the second half, driven by strong performance in new products which also enabled Medibank to be the only insurer recommended in all four categories of Choice's 2017 hospital insurance review. The lapse rate was up slightly, in line with industry. The ahm brand growth accelerated, driven by a significant improvement in both customer acquisition and lapse.

Health claims paid on behalf of members, also known as claims expenses, are the largest cost for the Health Insurance business, representing 82.9 percent of premium income in 2017. Claims paid on behalf of members increased by \$33.2 million, or 0.6 percent, to \$5.2 billion.

The Health Insurance gross margin rose from 16.6 percent in 2016 to 17.1 percent in 2017. This was, in part, due to shifts in the mix of the customer portfolio. There were also a range of Medibank-specific initiatives that impacted the outcome, especially Medibank's payment integrity program which reduces improper claims.

Management expenses increased by \$52.4 million or 10.2 percent in 2017. The ratio of management expenses to premium revenue (MER) rose from 8.4 percent in 2016 to 9.1 percent in 2017. The increase reflected an additional \$21.2 million investment in customer initiatives, the majority of which was IT related and is not expected to recur. It also reflected a full year of Project DelPHI amortisation, which was up \$21.0 million. Excluding the increase in total depreciation and amortisation of \$23.7 million, and the additional cost of customer initiatives, management expenses rose just 1.6 percent.

Medibank's Health Insurance operating profit of \$497.5 million was 2.6 percent lower than 2016. The key driver behind this result was the higher management expenses referred to above. Consequently, the Health Insurance operating margin fell by 30 basis points to 8.0 percent.

Medibank Health

Medibank Health businesses contributed 8.1 percent of Group revenue and 6.7 percent of segment operating profit in 2017. The continuing businesses are the provision of health management (primarily the Australian Defence Force contract for health services) and telehealth services for government and corporate customers, and the sale of travel, life and pet insurance products. Subsequent to year end, on 3 July 2017 Medibank purchased HealthStrong, Australia's leading provider of mobile allied health services to residents of aged-care facilities and in the home, for \$36.9 million.

The role of Medibank Health is to strengthen and complement the core Health Insurance business and to help customers more actively and successfully manage their health. It does this by providing health system access and identifying pathways to optimal health and care, as well as enhancing customer loyalty. The businesses are also expected to provide an appropriate stand-alone financial return.

In 2017, Medibank Health revenue decreased by \$17.2 million or 3.0 percent and operating profit increased by \$10.9 million or 44.0 percent, primarily due to the impacts of the divestment of underperforming businesses in 2016.

The ongoing Medibank Health businesses delivered steady operating profit while investing in future growth opportunities and implementing an improved service delivery model for the Australian Defence Force contract.

Net Investment income

Medibank's investment portfolio was \$2.5 billion at 30 June 2017, consisting of cash and other investments. This investment portfolio provides liquidity to cover insurance liabilities related to the Health Insurance business, and satisfies Medibank's obligations to maintain regulatory reserves to meet health claims and to fund ongoing operations.

Net investment income increased by \$80.0 million or 134.9 percent in 2017 due primarily to significantly higher returns from equity and credit markets compared with 2016, more than offsetting a lower interest rate environment.

In June 2017, Medibank's investment portfolio's target asset allocation was revised to 20.0 percent growth assets and 80.0 percent defensive assets, from 25.0 percent growth and 75.0 percent defensive previously. This more defensive and less volatile investment portfolio is considered prudent in light of elevated equity valuation parameters despite continued global uncertainties.

2.2 Group financial position

Medibank's net asset position increased by \$141.1 million (8.9 percent) to \$1,719.8 million at 30 June 2017.

The major balance sheet movement during the year was the \$155.9 million increase in cash and cash equivalents, primarily due to the new strategic asset allocation and cash held to fund the HealthStrong acquisition.

As at 30 June 2017, Medibank's balance sheet remained debt free.

2.3 Capital management and dividends

Medibank's capital management objective is to maintain a strong financial risk profile and capacity to meet financial commitments. As at 30 June 2017, Medibank's total Health Insurance business-related capital of 13.9 percent of premium revenue, after the allowance for declared but unpaid dividends, was at the top end of Medibank's targeted range of 12 percent to 14 percent.

Dividends paid or payable in respect of profits from the financial year totalled 12.0 cents per share fully franked, amounting to \$330.5 million comprising:

- an interim dividend of 5.25 cents per share fully franked, amounting to \$144.6 million paid on 29 March 2017 in respect of the six-month period ended 31 December 2016; and
- a final dividend of 6.75 cents per share fully franked, amounting to \$185.9 million to be paid on 28 September 2017 in respect of the six-month period ended 30 June 2017.

The Board's current policy is to target an annual payout ratio of between 70 percent and 80 percent of underlying NPAT.

2.4 Management changes

In March 2016 Medibank announced the appointment of Craig Drummond as the new Chief Executive Officer (CEO), effective 4 July 2016. David Koczkar, Medibank's Chief Operating Officer, served as acting CEO in the interim from 1 April 2016, when George Savvides retired after 14 years leading Medibank.

In August 2016 John Goodall was appointed as Group Executive – Technology & Operations, and became a member of Medibank's Executive Leadership Team (ELT), effective December 2016.

In September 2016 Medibank announced the following changes to the ELT:

- David Koczkar, Group Executive – Chief Operating Officer assumed the role of Group Executive – Chief Customer Officer.
- Andrew Wilson, Group Executive – Provider Networks & Integrated Care also became accountable for Medibank's strategy and innovation as Group Executive – Healthcare & Strategy.
- Mei Ramsay was appointed to the ELT as Group Executive – Legal, Governance & Regulatory Affairs.
- Tom Exton, Group Financial Controller was appointed as acting Group Executive – Chief Financial Officer when Paul Koppelman left the Company and the search for a new Chief Financial Officer was conducted.

In November 2016 Medibank announced the appointment of Mark Rogers as the Group Executive – Chief Financial Officer, effective January 2017.

OPERATING AND FINANCIAL REVIEW

continued

3. Strategy and future prospects

Medibank's purpose is "Better Health for Better Lives" and it is committed to helping Australians achieve a better quality of life.

Medibank seeks to grow shareholder value by profitably building its customer base while achieving affordable, consistent and quality health outcomes for customers.

Going forward Medibank will evolve from a traditional health insurer to a broader health services company influencing different parts of the healthcare value chain. Medibank will grow its Health Insurance business through the Medibank and ahm brands, while building its broader health services offering through Medibank Health.

In line with this ambition, in November 2016 Medibank set out three customer and three financial milestone objectives to be achieved by 2019. Medibank's progress against these objectives is shown in the table below.

Customer milestones		Financial milestones			
		Progress at 30 June			
Objectives to reach by 2019	Progress at 30 June 2017	Objectives to reach by 2019		2017	2016
Private Health Insurance Ombudsman complaints less than market share (by December 2017 survey)	Complaints reduced: Jun-17 quarter: 35.6% share Sep-16 quarter: 60.7% share	Maintain operating margin ³ above major private health insurance peers ¹	Medibank	7.7%	8.1%
			Major peers	n/a	5.8%
Brand Net Promoter Score (NPS) best in class against major private health insurance peers ¹	Brand NPS remains negative, albeit improved versus peer average	Maintain return on equity above cost of capital and major listed insurance peers ⁴	Medibank	27.3%	27.6%
			Major peers	17.0%	14.3%
Market share stabilised ²	30 June 2017: 26.93% 2017: down 63 bps 2016: down 108 bps	More than double Medibank Health share of segment operating profit from 2016		6.7%	4.6%

1. Bupa, HCF and nib.

2. Based on number of policyholders.

3. Operating margin is based on the Australian resident health insurance business only, whereas Health Insurance segment profit also includes the non-resident business.

4. nib, AMP, IAG and QBE.

In 2017 Medibank focused on strengthening the core of the business by reorienting more to its customers, putting value back into products and delivering a superior service proposition. While this focus will continue, given the tangible signs of progress in the above milestone objectives, Medibank can now start to invest in its competitive edge and build a growth agenda.

In 2018 Medibank will focus on delivering enhanced products and service to its customers. Leveraging DelPHI and Medibank's improved digital assets will enable more proactive and personalised communication with customers, as well as expansion of the breadth and reach of its health and wellbeing advice. This will allow Medibank to better match customers to the right level of cover, recognise and reward membership and improve customers' experience.

In order to further improve healthcare value for customers, Medibank will expand its payment integrity program to parts of the claims portfolio that have historically been less of a focus, such as ahm and the non-resident portfolio. Additionally, there are opportunities to expand payment integrity and improve transparency to reduce low value care and improve the standard of care for customers.

Distribution partnerships and arrangements will help expand Medibank's offering for customers and grow the business. There were a number of such changes during 2017 that have the capacity to improve both acquisition and retention in 2018. There are also several portfolios, such as the diversified, corporate, and non-resident portfolios, where there are opportunities to leverage Medibank's dual brands and broader health capabilities.

Alongside these priorities, driving simplicity and efficiency throughout Medibank remains a priority. Medibank expects to achieve \$50 million in productivity savings by 2020 (including \$20 million in 2018) through improved procurement, reduced consulting spend, and organisational simplification and automation.

In the medium to longer term, growth in the overall Australian healthcare industry is expected to continue due to a range of factors, including the ageing population, the increasing prevalence of chronic diseases and demand for medical treatment more broadly.

At the same time, increasing health system costs are driving an affordability challenge that is leading to a reduction in industry participation, particularly for younger customers. This is why Medibank will continue to play an active role in working with the Government and industry stakeholders to ensure that private health insurance remains affordable and meets its customers' needs.

4. Material business risks

The material business risks which could adversely affect Medibank's operations, business strategies and financial prospects are summarised below:

Healthcare costs and utilisation	Rising healthcare costs affect product margins, erode the value proposition and can result in members reducing cover. Medibank is addressing these issues with various programs, including focusing on quality outcomes and long-term affordability for customers in its approach to provider negotiations.
Competition and customer retention	Private health insurers and comparison websites compete to attract and retain members on price, products, service and channels, increasing member switching. New entrants can enter the market, including through partnering with existing participants. Medibank continually assesses its product and channel mix to optimise margins and market share, and to ensure it remains competitive.
Product pricing and design	Products may be mispriced or incorrectly designed and pricing is ultimately subject to government approval. Product profitability is closely monitored and compared to actuarially-derived costings.
Improper claims	Improper claims can represent a material source of cost and can result from fraudulent or erroneous health claims made by providers and members, including over-servicing or miscoding. Medibank's payment integrity program focuses on identifying, preventing and recovering improper claims.
Capital management and investment returns	Medibank's investment portfolio is subject to normal market risks (such as interest rates, exchange rates and equity market volatility) that can affect investment valuations and income volatility. Medibank actively manages its capital and investments in line with its risk appetite and investment policies.
Healthcare provider agreements	Medibank aims to be a health cost leader and introduce provider quality standards. Failure to reach contractual agreements may result in poor customer experiences, brand damage and loss of market share. Medibank strives to reach agreement with its providers, but has contingency plans in place for unfavourable negotiation scenarios.
Information technology	Medibank may be affected by cyber-attacks or failure in critical data, processes or systems. IT controls are continually under review and are protected through the use of detective, preventative and response tools.
Regulation	Government policy and regulation may change, potentially reducing the effectiveness of regulatory incentives and resulting in members discontinuing or reducing levels of cover. Medibank engages with key stakeholders and participates in industry forums to encourage informed policy setting and regulation.

GOVERNANCE

DIRECTORS

Name and title	Biography
Elizabeth Alexander AM Chairman and Independent Non-executive Director BCom, FAICD, FCA, FCPA	<p>Elizabeth was appointed a director in October 2008 and Chairman in March 2013. She is Chairman of the Nomination Committee and a member of the Audit Committee and the Risk Management Committee.</p> <p>As a former partner at PricewaterhouseCoopers (1977–2002), Elizabeth specialised in the area of risk management and corporate governance. Elizabeth was previously Chairman of CSL Limited and a director of Boral Limited and Amcor Limited. She is a former Chair of the Australian Prudential Regulation Authority's Risk and Audit Committee. Elizabeth is also a former National President of CPA Australia and the Australian Institute of Company Directors, and a former member of the Takeovers Panel. She is a former Chancellor of the University of Melbourne and Chair of its Finance Committee.</p> <p>Elizabeth is currently Chairman of DEXUS Wholesale Property Limited and a director of DEXUS Funds Management Limited as part of the DEXUS Property Group (since January 2005), and a director of the IOOF Foundation and the Victorian Registration and Qualifications Authority.</p>
Craig Drummond Chief Executive Officer BCom, CA, SF Fin	<p>Craig was appointed Chief Executive Officer in July 2016. He is a member of the Investment and Capital Committee.</p> <p>Prior to joining Medibank, Craig was Group Executive Finance and Strategy of National Australia Bank Limited (NAB), having joined NAB in November 2013. At NAB, his focus was the strategic realignment and repositioning of the bank, its balance sheet and its performance management systems. Prior to NAB, Craig was Chief Executive Officer and Country Head of Bank of America Merrill Lynch (Australia). Earlier in his career, Craig joined JBWere, a leading Australian stockbroker and wealth manager, in equity research and subsequently held roles including Chief Operating Officer, Chief Executive Officer and Executive Chairman of Goldman Sachs JBWere.</p> <p>Craig is a director of the Geelong Football Club Limited and the Florey Institute of Neuroscience and Mental Health. He is also a member of the Finance Committee of the Ian Potter Foundation Limited.</p>
Anna Bligh AC Independent Non-executive Director BA (QLD)	<p>Anna was appointed a director in December 2012. She is a member of the Investment and Capital Committee and the People and Remuneration Committee.</p> <p>Anna has extensive experience in leadership and public policy, including in the fields of healthcare, finance, infrastructure and project management. She has held several roles in the Queensland Government, including Premier, Treasurer, Minister for Finance, Minister for State Development, Minister for Trade and Innovation and Minister for Education. She was also a member of the Queensland Cabinet Budget Review Committee for 11 years.</p> <p>Anna is currently the Chief Executive Officer of the Australian Bankers' Association and a director of Bangarra Dance Theatre Australia.</p>

DIRECTORS

continued

Name and title	Biography
David Fagan Independent Non-executive Director LLB, LLM, GAICD	<p>David was appointed a director in March 2014. He is Chairman of the Risk Management Committee and a member of the Investment and Capital Committee and the People and Remuneration Committee.</p> <p>David is a highly experienced banking and major projects lawyer with more than 35 years of experience. He acted for major banks and corporate clients with Clayton Utz, and was Clayton Utz's Chief Executive Partner from May 2001 to June 2010. David also chaired the Medibank Privatisation Committee which operated during 2014 in preparation for the privatisation process.</p> <p>David is currently a director and Chair of the Audit Committee of The Global Foundation and a director of Hilco Merchant Australia Pty Limited, Hilco Oz Pty Limited and Grocon Funds Management Group. He is a director and Chair of the Audit and Risk Committee of UBS Grocon Real Estate Investment Management and on the advisory board of Chase Corporate Advisory.</p>
Dr Cherrell Hirst AO Independent Non-executive Director FTSE, MBBS, BEdSt, D.Univ (Hon), FAICD	<p>Cherrell was appointed a director in December 2009. She is a member of the Audit Committee, the Risk Management Committee and the People and Remuneration Committee.</p> <p>Cherrell has practised medicine for 30 years and is a highly experienced company director. She is a former director of Telesso Technologies Limited, Suncorp Group Limited, Avant Mutual Group and Avant Insurance Limited. From 1994 to 2004, Cherrell was Chancellor of the Queensland University of Technology.</p> <p>Cherrell is currently Chairman of ImpediMed Limited (since August 2005) and Factor Therapeutics Limited (since June 2009). She is a director of Gold Coast Hospital and Health Service, and RSL Care RDNS Limited. She is also Chairman of the Advisory Board of the Institute of Molecular Bioscience at the University of Queensland.</p>
Peter Hodgett Independent Non-executive Director BSc (Hons), FIAA, FAHRI, FAICD	<p>Peter was appointed a director in June 2013. He is Chairman of the Investment and Capital Committee, and a member of the Audit Committee and the Nomination Committee.</p> <p>Previously, Peter worked for AMP for more than 20 years in a wide variety of business and functional roles, including Chief Actuary during its demutualisation, General Manager of Human Resources and Strategy, and as Global Director of Finance and Operations for Henderson Global Investors in the United Kingdom.</p> <p>Peter is currently a director of Colonial First State Investments Limited, Colonial Mutual Superannuation Pty Limited and Avanteos Investments Limited.</p>

Name and title	Biography
Linda Bardo Nicholls AO Independent Non-executive Director BA, MBA (Harvard), FAICD	<p>Linda was appointed a director in March 2014. She is Chairman of the People and Remuneration Committee and a member of the Nomination Committee.</p> <p>Linda has more than 30 years of experience as a senior executive and director in banking, insurance and funds management in Australia, New Zealand and the United States. She was previously Chairman of KDR Victoria Pty Ltd (Yarra Trams), Healthscope Limited and Australia Post, and a director of Pacific Brands Limited (October 2013 to July 2016), St George Bank, Sigma Pharmaceuticals Limited (December 2005 to December 2015) and Insurance Manufacturers of Australia. Linda was also a member of the Walter and Eliza Hall Institute of Medical Research.</p> <p>She is currently Chairman of Japara Healthcare Limited (since March 2014), a director of Fairfax Media Limited (since February 2010) and Inghams Group Limited (since November 2016). She is also a director of the Olivia Newton-John Cancer Research Institute.</p>
Christine O'Reilly Independent Non-executive Director BBus	<p>Christine was appointed a director in March 2014. She is Chairman of the Audit Committee and a member of the Risk Management Committee and the Nomination Committee.</p> <p>Christine has more than 30 years of financial and infrastructure experience both in Australia and internationally in various roles including as Co-head of Unlisted Infrastructure at Colonial First State Global Asset Management, and as Chief Executive and Managing Director of GasNet Australia Group.</p> <p>Christine is currently a director of CSL Limited (since February 2011), Transurban Group (since April 2012), EnergyAustralia and Baker IDI.</p>
Mike Wilkins AO Independent Non-executive Director BCom, MBA, FAICD, FCA	<p>Mike was appointed a director in May 2017. He is a member of the Risk Management Committee and Investment and Capital Committee.</p> <p>Mike has more than 30 years of experience in financial services, predominantly in Australia and Asia. He served as Managing Director and Chief Executive Officer at Insurance Australia Group (November 2007 to November 2015), Managing Director and Chief Executive Officer at Promina Group Limited and Managing Director at Tyndall Australia Limited. He was previously a director of Maple-Brown Abbott Limited, Alinta Limited, The Geneva Association and the Australian Business and Community Network.</p> <p>Mike is currently a director of AMP Limited (since September 2016) and QBE Insurance Group Limited (since November 2016).</p>
Company Secretary	
Mei Ramsay Group Executive – Legal, Governance & Regulatory Affairs and Company Secretary BA, LLB, LLM	<p>Mei was appointed the Group Executive – Legal, Governance & Regulatory Affairs in September 2016, previously having held the position of Group General Counsel from 2011. She was appointed Company Secretary in 2014. She is responsible for providing legal, governance and regulatory compliance advice to Medibank's Board, CEO and senior management.</p> <p>Mei has more than 20 years of experience in the legal profession, both as internal counsel and in private practice. Prior to joining Medibank, Mei held various legal positions at Cummins, Coles Myer, Southcorp, Minter Ellison and Arnold Bloch Leibler.</p>

EXECUTIVE LEADERSHIP TEAM

Name and title	Biography
Kylie Bishop Group Executive – People & Culture BA (Hons) Psy, MOrgPsych	<p>Kylie was appointed Group Executive – People & Culture in July 2013.</p> <p>She is responsible for leading the key people functions across Medibank including talent, capability and culture, performance and reward, shared services, workplace relations, health, safety and wellbeing, internal communications and environment, social and governance.</p> <p>Kylie formerly held the position of General Manager – Culture, Capability and Communications. She was responsible for overseeing the consolidation of six premises in Melbourne into one purpose-built headquarters designed for Better Health and continues to lead the business in its activity-based work transformation program.</p> <p>Prior to joining Medibank in 2010, Kylie held senior positions with National Australia Bank and also led a number of human resources consulting teams. A registered psychologist, she began her career in HR consulting, specialising in organisational psychology.</p>
John Goodall Group Executive – Technology & Operations BSc (Hons)	<p>John was appointed Group Executive – Technology & Operations in December 2016.</p> <p>He is responsible for Medibank's core IT platforms, property, procurement and operations with a focus on finalising the implementation of Project DelPHI and delivering enhanced service outcomes for Medibank's customers.</p> <p>John has more than 25 years of experience working in and leading IT functions across the retail and financial services industries and utilising technology to drive business growth and align business systems and processes to customer needs.</p> <p>Prior to joining Medibank, John held the role of GM Enterprise Technology at Sportsbet, and before this, he spent 20 years at GE Capital Australia and New Zealand where he held a number of roles including Chief Information Officer.</p>
David Koczkar Group Executive – Chief Customer Officer BCom, PG Dip Finance, MAICD	<p>David was appointed the Group Executive – Chief Customer Officer in September 2016. Prior to that he held the role of Chief Operating Officer from March 2014 and was Acting Chief Executive Officer between April 2016 and June 2016.</p> <p>He is responsible for Medibank Group's Resident and Overseas Health and Diversified Insurances portfolios, including the ahm business. David is accountable for all key customer touchpoints, including Medibank's retail store network, customer contact centres and digital channels, and the group's customer experience transformation, marketing, and product functions.</p> <p>Prior to joining Medibank, David was the Group Chief Commercial Officer at Jetstar where he was responsible for the airline group's network management, sales and marketing, customer channels and commercial operations, including as a director of Jetstar Pacific (Vietnam), Jetstar Hong Kong and NewStar (Singapore) JV businesses.</p> <p>David has a wealth of customer, commercial and business experience, including previous work in strategy consulting and financial services, and was part of the original core team that developed the business case for Jetstar and built it into a successful Pan-Asian business.</p>

Name and title	Biography
Mark Rogers Group Executive – Chief Financial Officer BEng (Hons), BSc	<p>Mark was appointed the Group Executive – Chief Financial Officer in January 2017.</p> <p>Mark is responsible for the finance, actuarial, treasury and investor relations functions across Medibank and has more than 20 years' experience spanning health and financial services.</p> <p>Before joining Medibank, Mark held the role of General Manager, Group Performance and Planning at National Australia Bank (NAB) since 2013, where he was responsible for management reporting, performance management, planning and forecasting, and capital allocation. Preceding this, Mark was General Manager, Group Development at NAB.</p> <p>Prior to this, Mark was responsible for Group Strategy and Development for the Mayne Group, where he was accountable for the management of the Group's strategy, capital management and was involved in health sector related customer and supplier negotiations. While at the Mayne Group, Mark also led Group Investor Relations.</p>
Dr Andrew Wilson Group Executive – Healthcare & Strategy MBBS, MM, FRANZCP, FACHSE	<p>Andrew was appointed Group Executive – Healthcare & Strategy in September 2016, having previously held the role of Executive General Manager – Provider Networks & Integrated Care since 2013.</p> <p>Andrew is responsible for Medibank's Group strategy and the Medibank Health business, which provides health services on behalf of business and government including the management of healthcare delivery for the Australian Defence Force. He is also responsible for Medibank's healthcare purchasing, relationships with providers and enhanced care initiatives to support members in primary and community settings.</p> <p>Andrew has 25 years of experience in the health system, and remains a practising clinician and lecturer.</p> <p>He was a founder and co-president of McKesson Asia-Pacific, which was acquired by Medibank in 2010.</p>

CORPORATE GOVERNANCE STATEMENT

The Board is committed to enhancing the customer experience, maximising business performance, generating shareholder value and financial returns and sustaining the growth and success of Medibank. In conducting business in accordance with these objectives, the Board seeks to ensure that Medibank is properly managed to protect and enhance shareholder interests, and that Medibank, its directors, officers and employees operate in an appropriate environment of corporate governance. The Board has in place a framework for governing Medibank. This includes adopting internal controls, risk management processes and corporate governance policies and practices, designed to promote responsible management and ethical conduct.

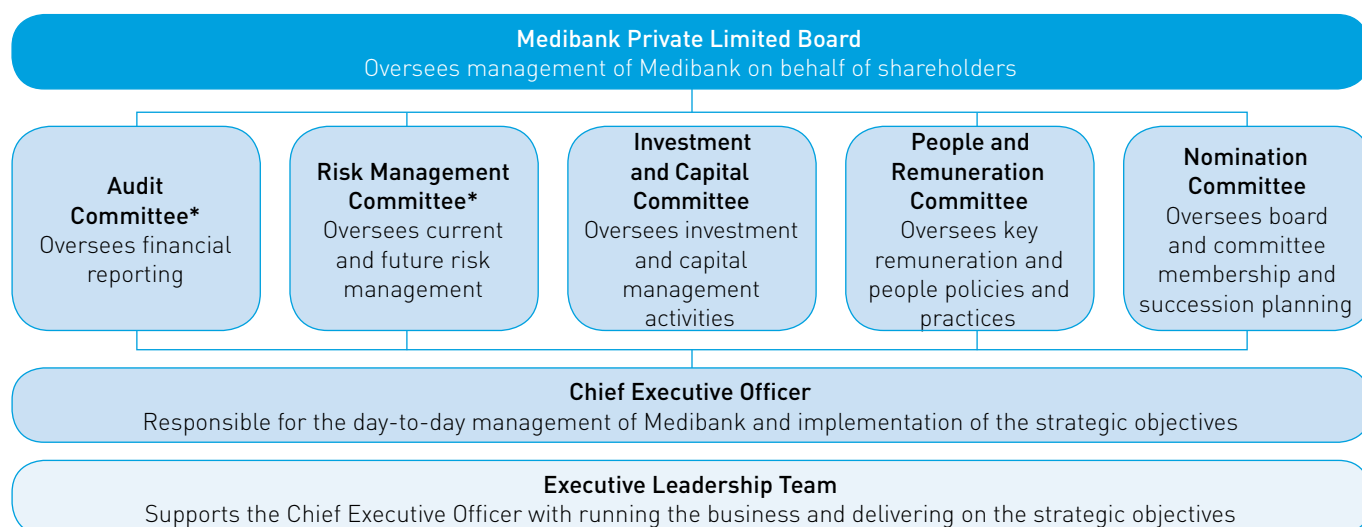
Medibank was founded in 1976 as a private health insurer and was operated by the Australian Government. In 1998, Medibank Private Limited became the operating entity with the Commonwealth of Australia as the sole shareholder. In 2014 the Australian Government sold Medibank by way of an initial public offering, and divested all its shares in Medibank. Medibank listed on the Australian Securities Exchange (ASX) on 25 November 2014.

ASX Corporate Governance Council Recommendations

During the year, Medibank had in place policies and practices which comply with the recommendations in the 3rd edition of the ASX Corporate Governance Council Corporate Governance Principles and Recommendations. As a registered private health insurer, Medibank also complies with an industry-specific governance standard issued by the Australian Prudential Regulation Authority (APRA). The key corporate governance practices applied at Medibank are described in this statement and the key corporate governance policies are available on Medibank's website.

Governance structure

The governance and performance of Medibank is overseen by the Board of directors elected by the shareholders.



* Taking APRA recommendations into account, effective 1 July 2017, the Board established two separate committees being the Audit Committee and the Risk Management Committee, replacing the former Audit and Risk Management Committee.

Roles and responsibilities of the Board and management

The Board provides overall strategic guidance for Medibank and effective oversight of management. Responsibility for the governance of Medibank, including establishing and monitoring key performance goals, rests with the Board. The Board monitors the operational performance and financial position of Medibank, as well as overseeing the business strategy, and approving strategic goals. In performing its role, the Board is committed to ensuring sound corporate governance practices.

The Board Charter, which is available on Medibank's website, articulates the Board's roles and responsibilities, its membership and operation and which responsibilities may be delegated to committees or to management. Specific responsibilities have been reserved by the Board in key areas of strategy, governance, executive appointments, financial approvals and reporting, disclosure and risk management. The Board has established standing committees to assist in performing its responsibilities. These committees examine in detail particular issues and make recommendations to the Board. A description of these committees can be found on page 22. The Chief Executive Officer has responsibility for managing the day-to-day affairs of Medibank. The Chief Executive Officer with the support of the Executive Leadership Team manages Medibank in accordance with the Board-approved corporate plan, the corporate strategy and policies, and within the risk appetite set by the Board. A detailed delegation framework defines the decision-making and expenditure limits which apply at various levels of management.

Key areas of focus for the Board in 2017

- Board composition review and succession planning resulting in appointment of new non-executive directors
- Oversight of recruitment of senior executives
- Strategy, corporate plan, budget and performance targets
- Oversight of business performance
- Evaluate growth options to expand the Healthcare Services business
- Full year and half year financial results and monitoring of results
- Review and update of the strategic risk framework and alignment with APRA standards
- Oversight of key projects including embedding Project DelPHI, a major IT project
- Enhancement of customer proposition, engagement and experience
- Oversight of major litigation and regulatory compliance matters

Structure and composition of the Board

Following the appointment of Mike Wilkins on 25 May 2017, the Board comprised of eight non-executive directors, including a non-executive Chairman. As announced by Medibank on 28 July 2017, Dr Tracey Batten was appointed as a non-executive director following Dr Cherrell Hirst's decision to retire from the Medibank Board, with effect from 28 August 2017.

The Chairman of the Board, Elizabeth Alexander, is an independent, non-executive director. She is responsible for providing leadership to the Board and Medibank as a whole. The Chairman's other key responsibilities are outlined in the Board Charter.

Biographies of the directors, including their skills, experience and year of appointment, are set out on pages 13 to 15 of the annual report. Details of directors' attendance at Board and committee meetings during the year ended 30 June 2017 is on page 29. The length of service of the non-executive directors ranges from three months to eight years and eight months.

Independence

Directors are expected to bring an independent judgement to bear on all Board decisions. A director is considered independent if the director is a non-executive director who is not a member of management, and is free of any business or other relationship that could materially interfere with the exercise of their unfettered and independent judgement or could reasonably be perceived to do so.

Each director provides periodic updates of their interests, positions, associations and relationships, and all directors must immediately disclose any actual or potential conflicts of interest that could impact their independence. In some instances, the directors will be required to abstain from participating in any discussions or voting on any matters if they have a conflict or a material interest.

The Board regularly assesses the independence of each director in light of the interests disclosed. The Board has assessed the interests, positions, associations and relationships of each director as at the date of this report. It has determined that all of its non-executive directors, including the Chairman, satisfy the independence criteria recommended by the ASX Corporate Governance Council and prescribed by APRA.

To provide an opportunity for independent discussion, the non-executive directors meet without management present at the commencement of each Board meeting.

Appointment and re-election of directors

The Medibank Constitution provides that directors will be appointed by the Board and are subject to election by shareholders at the annual general meeting following their appointment. Individuals may also be nominated by shareholders to stand for election as a director at the annual general meeting. The Constitution requires an election of directors at each annual general meeting, and a director must retire and may stand for re-election by the third annual general meeting following the director's election, or at the annual general meeting prior to the third anniversary of the listing, whichever is the later date.

CORPORATE GOVERNANCE STATEMENT

continued

Before appointing a person as a director, the Board would first undertake checks as to that person's character, experience and background, including criminal and bankruptcy checks. Although it is not a requirement for Medibank or the health insurance industry, Medibank has a 'Fit and Proper Policy' based on APRA's Fit and Proper Prudential Standard. This standard requires that a person in a position of responsibility, including a director, be assessed prior to appointment as to whether the person meets the fit and proper requirements. The person must have the appropriate skills, experience and knowledge to perform the role and act with the requisite character, diligence, honesty, integrity and judgement.

Upon appointment, each non-executive director enters into a service agreement setting out the terms of the director's appointment. This includes the requirement to build a shareholding in Medibank in order to align the interests of directors with shareholders. The minimum shareholding policy for a non-executive director is to acquire shares with a value equal to one year's base fee after tax over a period of five years.

As part of the appointment process, Medibank enters into a deed of indemnity, insurance and access with each director. Each director is indemnified against liability in connection with their role as a director and Medibank is required to maintain a directors' and officers' insurance policy. The deed confirms and extends the director's general law rights of access to board papers and other records of Medibank.

Director induction, continuing education and access to information

The Board is committed to enhancement of the capabilities of each director and the performance of the Board generally. Upon joining the Board, all new non-executive directors undertake a full, formal and tailored induction program. The program includes meetings with the Chairman, Chief Executive Officer, Executive Leadership Team and the senior leaders on Medibank's business, strategy and operation. The Board is provided with ongoing professional development opportunities during the year including formal briefing sessions on a range of subjects by key stakeholders, regulators and industry experts to provide deeper insights on industry context and trends, site visits to Medibank's operations, conference attendance and one-on-one discussions on technical aspects of the business.

The Chairman and the Board have complete and open access to the Chief Executive Officer, Executive Leadership Team and to senior management as required. If necessary, a director may seek independent professional advice at Medibank's expense in respect of any matter connected with the discharge of the director's responsibilities. They also have direct access to the advice and services of the Company Secretary, who is accountable to the Board through the Chairman, and advises the Board and the Chairman on all governance matters.

Board skills mix

The Nomination Committee regularly reviews the balance of skills, experience, independence, knowledge and diversity of the Board. The evolution of the mix of skills and diversity of the Board is a long-term process and the Nomination Committee weighs the various factors relevant to achieving the balance of skills and diversity of the Board.

The skills matrix set out below demonstrates alignment of the Board's responsibilities with the current skills mix. The Board believes these skills result in an appropriate set of experience and expertise, and a diverse range of views and perspectives, for effective governance, oversight and strategic leadership of Medibank. Further to the disclosure in the 2016 annual report, with the appointment of Mike Wilkins in May 2017, the Board has enhanced the operational expertise in the area of customer proposition.

Insurance and healthcare sector experience	Proven knowledge of, and experience in, the insurance industry and healthcare sector.
Executive leadership	Sustainable success at a senior executive level in a large organisation.
Investment and treasury management	Knowledge and experience in capital markets and investments.
Government relations and public policy	Interaction with government and regulatory bodies and involvement in public policy decisions.
Marketing and customer focus	Experience in marketing, and development of product and/or customer management strategies.
Technology	Understanding of technology and innovation, and the development and implementation of initiatives to enhance productivity and customer experiences.
Strategy	Proven ability in developing and implementing successful strategies, including appropriately probing and challenging management on the delivery of agreed strategic objectives.

Risk management and internal control	Experience in developing a business portfolio over the long term that remains resilient to strategic, business and financial risks, and establishing risk management and internal control frameworks, setting the risk appetite and overseeing organisational risk culture.
Financial acumen	Proficiency in financial accounting and reporting, corporate finance and internal financial controls, corporate funding, and understanding of the associated risks.
Legal, governance and compliance	Oversight of operations and obligations in a highly complex and regulated environment and commitment to highest standards and systems of governance.
Human resources and executive remuneration	Understanding of the link between strategy, performance, desired behaviours, long-term shareholder value creation and remuneration outcomes.
Project management	Proven experience in providing oversight and strategic input in projects to ensure desired outcomes and objectives are achieved.

Board performance evaluation

The Nomination Committee is responsible for reporting to the Board on the evaluation of the performance of the Chairman, Board, committees and individual directors. In 2017, the Chairman of the Committee led an internal Board evaluation by way of a detailed directors' survey seeking feedback in the areas of strategy, risk management, operations, relationship with management, meetings, committees, board papers, logistics and the role of the Chairman. The performance evaluation of the Board included assessment of the handling by committees of the issues and challenges which arose during the year. Following the survey, the Committee discussed and evaluated the outcomes and referred relevant action items to the Board.

The evaluation of each non-executive director was performed by the Chairman and, for the Chairman, by the Chairman of the former Audit and Risk Management Committee. This was also informed by the results of the Board evaluation survey. Following the performance evaluation, the Chairman and the Chairman of the former Audit and Risk Management Committee were satisfied that all directors continue to make a valuable contribution through the skills they bring to the Board and their understanding of Medibank, and that they have each met the time requirements to fulfil their duties as a director.

An external consultant will be engaged to conduct the Board performance evaluation for the 2018 reporting period.

Committees of the Board

The Board has established five standing committees, namely the Audit Committee, Risk Management Committee, Investment and Capital Committee, People and Remuneration Committee and Nomination Committee, to assist in the execution of its responsibilities. During the reporting period the Audit Committee and the Risk Management Committee functioned as a single Audit and Risk Management Committee. Taking APRA recommendations into account, the Board established the stand alone Audit and Risk Management Committees effective 1 July 2017. Each committee is governed by a charter setting out the committee's role, responsibilities, membership and processes. The charters can be accessed on Medibank's website.

The membership, roles and responsibilities of each committee are summarised in the table below.

The relevant qualifications and experience of the members of each committee can be found in the director biographies on pages 13 to 15 of the annual report. The number of meetings of each committee and individual attendances of the committee members at those meetings are found in the directors' report on page 29 of the annual report.

CORPORATE GOVERNANCE STATEMENT

continued

Committee membership as at 25 August 2017

Committee membership as at 25 August 2017	Composition	Key roles and responsibilities
Audit Committee¹ <ul style="list-style-type: none"> Christine O'Reilly (Chairman) Elizabeth Alexander Dr Cherrell Hirst Peter Hodgett 	<ul style="list-style-type: none"> At least three non-executive directors, a majority of whom are independent directors and at least one being a member of the Risk Management Committee. Structured so that members are all financially literate, and between them have accounting and financial expertise and experience and a deep understanding of health and insurance industries. The chairman must be an independent non-executive director, and must not be the chairman of the Board. The chairman of the committee is appointed by the Board. 	<ul style="list-style-type: none"> Integrity of external financial reporting and financial statements. The appointment, remuneration, independence and competence of external auditors. Systems and procedures for compliance with relevant laws, regulations and codes. Internal and external audit processes and internal control framework.
Risk Management Committee¹ <ul style="list-style-type: none"> David Fagan (Chairman) Elizabeth Alexander Dr Cherrell Hirst Christine O'Reilly Mike Wilkins 	<ul style="list-style-type: none"> At least three non-executive directors, a majority of whom are independent directors and at least one being a member of the Audit Committee. Structured to have the necessary knowledge and a sufficient understanding of Medibank's industry. The chairman must be an independent non-executive director, and must not be the chairman of the Board. The chairman of the committee is appointed by the Board. 	<ul style="list-style-type: none"> Systems to ensure effective management of financial and non-financial risks, including reputational and clinical risks. Medibank's overall current and future risk appetite. Oversight of implementation of the risk management strategy and stress testing of key risks.
Investment and Capital Committee² <ul style="list-style-type: none"> Peter Hodgett (Chairman) Anna Bligh David Fagan Craig Drummond 	<ul style="list-style-type: none"> At least three non-executive directors and the Chief Executive Officer. The chairman of the committee must be an independent non-executive director, appointed by the Board. 	<ul style="list-style-type: none"> Oversight of investment and capital management activities. Oversight of the investment strategy and Capital Management Policy. Monitoring the effectiveness of the investment process. Authorising delegated investment decisions.
People and Remuneration Committee³ <ul style="list-style-type: none"> Linda Bardo Nicholls (Chairman) Anna Bligh David Fagan Dr Cherrell Hirst 	<ul style="list-style-type: none"> At least three non-executive directors, a majority of whom are independent directors. The chairman of the committee must be an independent non-executive director, appointed by the Board. 	<ul style="list-style-type: none"> Remuneration framework and arrangements for the Chief Executive Officer and senior executives. Executive management succession planning. Incentive schemes and equity-based remuneration plans. Measurable objectives for diversity. Performance in relation to health and safety matters.
Nomination Committee <ul style="list-style-type: none"> Elizabeth Alexander (Chairman) Christine O'Reilly Linda Bardo Nicholls Peter Hodgett 	<ul style="list-style-type: none"> At least three members. The chairman of the Board will be the chairman of the committee. 	<ul style="list-style-type: none"> Director selection and appointment. Board composition. Board succession planning. Performance evaluation of the Board, committees and individual directors.

- Effective 1 July 2017, the Board established the separate Audit Committee and Risk Management Committee to replace the then existing Audit and Risk Management Committee. The members of the former Audit and Risk Management Committee were Christine O'Reilly (as Chairman), Elizabeth Alexander, Dr Cherrell Hirst and Peter Hodgett.
- Mike Wilkins was appointed to the Investment and Capital Committee effective 1 July 2017.
- Further information about the activities of the People and Remuneration Committee during 2017 can be found in the remuneration report on page 32 of the annual report.

Executive Leadership Team

The Chief Executive Officer is supported by the Executive Leadership Team who are responsible for the day-to-day management and performance of Medibank. The Executive Leadership Team profiles and accountabilities are set out on pages 16 to 17. The Executive Leadership Team members have a clear understanding of their roles and responsibilities through position descriptions and a structured performance management system. Each executive has entered into a service contract with Medibank setting out their terms of employment. The remuneration policies and practices applying to the Executive Leadership Team members who are defined as key management personnel are detailed in the remuneration report on page 32.

The remuneration report (page 32) contains the performance measures applied to Executive Leadership Team members and the process for the annual evaluation of their performance. A performance evaluation was undertaken during 2017 in accordance with that process for each Executive Leadership Team member as at 30 June 2017.

Ethical standards for management and employees

Central to the Board's governance framework is a culture of ethical behaviour based on Medibank's key values. These values are intended to guide the way employees work together and engage with customers, business partners, governments and the wider community, and are supported by a range of policies and procedures.

The Medibank Code of Conduct, available on Medibank's website, sets out the way employees, including executives, work and the practical principles and minimum standards of expected behaviour. Responsibilities include behaving in a manner that promotes health, safety and wellbeing, that fosters relationships of trust and respect that avoids conflicts of interest (including not offering or accepting secret commissions or bribes) and protecting confidential information. Medibank has in place different options for dealing with breaches of the Code of Conduct depending on the circumstances. Through the Whistleblower Policy, identification and reporting of all conduct that is inappropriate or exposes Medibank to unacceptable loss or risk is encouraged and whistleblowers are protected from victimisation or disadvantage as a response to making reports. A whistleblower reporting service called Medibank Alert is available through an external provider, enabling employees to report conduct anonymously, or limit who is informed of the whistleblower's identity.

Ethical conduct is supported by further corporate policies, including the areas of anti-bribery, anti-corruption and conflicts of interest.

Medibank has a health and safety management system in place to ensure it meets legislative requirements and proactively addresses its key risks in health and safety. The Health, Safety and Wellbeing Policy underpins the objective of preventing injury and illness through a culture of health promotion, injury prevention and early intervention.

The Share Trading Policy, available on Medibank's website, applies to directors, executives, employees and contractors. Restrictions include blackout periods during which trading in Medibank shares by directors, executives and specific corporate employees is prohibited. These periods apply in the lead up to the release of financial results and at other times as required.

Diversity

Medibank is committed to creating an inclusive culture that acknowledges and embraces difference in all its forms and leverages the benefits that diversity and inclusion brings to employees, shareholders, customers and the community. Medibank recognises that all employees are different, and these differences create organisational benefits.

The Board has adopted a Diversity and Inclusion Policy that supports and facilitates an inclusive environment. The policy outlines the role of the People and Remuneration Committee in recommending to the Board measurable objectives for diversity and annually assessing progress against these. The policy is reviewed annually and is available on Medibank's website. A Diversity and Inclusion Strategy supports the policy and sets out the measurable objectives established by the Board.

The Board emphasises the importance of having a gender diverse leadership team, which is supported by Medibank's commitment to having and maintaining at least 40 percent female representation in the Senior Leader population. As at June 2017, the actual representation was 50 percent.

CORPORATE GOVERNANCE STATEMENT

continued

In May 2017, Medibank completed the reporting of its gender equality indicators under the Workplace Gender Equality Act 2012 (Cth). The reports can be accessed on Medibank's website. As at 30 June 2017 the respective proportions of men and women on the Board, in senior executive positions and across the whole organisation were as follows:

Position	Men	Women	% women
Board (non-executive)	3	5	63%
Executive Leadership Team	5	2	29%
Other executives and general managers	27	30	53%
Senior Leader¹ total	32	32	50%
Senior managers	155	123	44%
Other managers	250	361	59%
Non-managers	550	712	76%
Overall (excluding Board)	987	2,228	69%

1. 'Senior Leader' includes all executive and general management positions (or equivalent), and was a population of 64 people as at 30 June 2017.

In 2016 the Board set measurable objectives for achieving diversity at Medibank, including gender diversity, and committed to reporting progress achieved against these in the 2017 corporate governance statement. The table below shows our progress against these objectives:

Measurable objective	Progress towards achievement
Continue to actively support flexible work practices (e.g. part-time, working from home, flexible start/finish time, job sharing) with the aim of increasing the percentage of employees working flexibly.	In February 2017, Medibank launched FlexBetter- a leader-led and team-based approach to flexible working. This approach led to a 13 percent increase in the proportion of employees working flexibly, which now sits at 70 percent.
Conduct a review of our Parental Leave policies with the aim of better supporting working parents before, during and after Parental Leave.	A review of Medibank's Parental Leave policy and approach was conducted including research, focus groups and interviews with internal and external stakeholders. A new approach to Parental Leave will be rolled out in 2018, focusing on shared caring responsibilities between parents, flexibility to individual needs, providing better support while individuals are on leave, and improved job design for those returning from leave.
Strive to achieve at least 40% female representation within senior manager roles in order to grow the pool of future female leaders.	As at end-June 2017, Medibank had achieved 44 percent female representation within senior manager roles. We will continue to invest in the development of future female leaders by increasing their confidence and capability in actively managing their development and future careers.
Aim to achieve gender balance across our talent pipelines, with at least 50% women identified across our high potential talent and Graduate Program pools.	57 percent of employees identified as high-potential talent are female, and our graduate program is 63 percent female.
Increase the representation of people with disabilities, Indigenous Australian Peoples and those aged over 55 within our workforce.	Over 2017, Medibank achieved an increase in the number of employees aged over 55 (of 112 people). The representation of Indigenous Australian Peoples also increased (by one person). A new Reconciliation Action Plan for 2018-2020 is being developed to include stretch targets. However, over the same period, the number of employees who disclosed a disability declined by 22 people. This is disappointing and to address this, Medibank has committed to the development of an Accessibility Action Plan in 2018.

Further demonstrating our commitment to diversity, in 2016 Medibank was recognised as an Employer of Choice for Gender Equality by the Workplace Gender Equality Agency for the first time, and we were also recognised as a Top 20 employer for lesbian gay bisexual transgender intersex (LGBTI) inclusion through our participation in the Australian Workplace Equality Index.

For 2018 the Board has set the following measurable objectives for achieving diversity at Medibank, including gender diversity, and is committed to reporting progress achieved against these in the 2018 corporate governance statement:

1. Medibank will remain committed to ensuring a representation of at least 40 percent women across our leadership population.
2. Medibank will commit to launching a new 'Stretch' Reconciliation Action Plan for 2018-2020.
3. Medibank will commit to launching an Accessibility Action Plan in order to better attract and retain employees with disability while improving the customer experience for people with disability.
4. Medibank will maintain the proportion of employees working flexibly at a minimum of 70 percent.
5. Medibank will continue to benchmark our Diversity and Inclusion practices by maintaining our citation as a Workplace Gender Equality Agency Employer of Choice for Gender Equality. Medibank will also benchmark our practice via the Australian Workplace Equality Index for LGBTI Inclusion, and Australia Network on Disability's Access and Inclusion Index.

Market and shareholder communication

Market disclosure

Medibank promotes investor confidence and the rights of shareholders by ensuring the immediate disclosure of market sensitive information regarding Medibank. The measures to further these commitments are detailed in the Disclosure and Communication Policy approved by the Board, which is available on Medibank's website. This is designed to facilitate compliance with Medibank's obligations under the ASX Listing Rules and the Corporations Act by assigning authorisation processes for market announcements, and reserving certain matters for approval by the Board. Processes for engagement with analysts and investors are detailed in the policy as well as the assignment of spokespersons for market and media communications. Awareness and compliance is promoted by compulsory periodic online employee training and additional information sessions for those likely to become aware of potentially market sensitive information.

The Board is supported by a management Disclosure Committee responsible for considering potentially market sensitive information and monitoring Medibank's disclosure processes and reporting framework. The charter for the Disclosure Committee is available within the Disclosure and Communication Policy.

Information about Medibank and its governance

Medibank's website provides information about the company and its corporate governance, and an area specifically for prospective and existing Medibank shareholders which links to Medibank's results, annual reports, share price, ASX announcements and AGM materials. A shareholder calendar of upcoming events is maintained on the website, along with information to assist investors to manage their shareholdings. Medibank's share register is managed by Computershare Investor Services Pty Limited which provides an accessible online platform for shareholders to access and manage their shareholdings.

Medibank encourages shareholders to receive communications securely by email for reasons of speed, security, environmental friendliness and to reduce costs. Unless a shareholder elects to receive information by post, Medibank communicates with shareholders via email and other electronic channels, including providing notices of meetings and facilitating online voting on the AGM resolutions.

Investor engagement

Medibank conducts briefings, meetings, telephone calls and webcasts for institutional and retail investors, analysts and financial media to provide a greater understanding of the business, and the half year and full year results. Investor briefings and ad hoc meetings with institutional and private investors, analysts and financial media provide a forum for two-way communications between Medibank and the investment community. In November 2016, for example, Medibank conducted an investor day attended by a broad group of institutional investors and analysts. In addition, Medibank also presented at the Morgan Stanley Private Health Forum in April 2017 and the Macquarie Australia Conference in May 2017.

Communication with the investment community is generally through the Chief Executive Officer, the Chief Financial Officer and the General Manager Investor Relations and, in respect of governance and remuneration issues, the Chairman. Feedback from engagement with the investor community is communicated to the Board at each Board meeting.

In all communications with investors, analysts and media, only publicly available information and information which is not market sensitive is discussed. In order to ensure that all shareholders have equal and timely access to material information concerning Medibank, advance notification of investor and analyst results briefings is announced via the ASX. The briefing presentation slides are released on the ASX and are subsequently, together with webcast presentations, made available on Medibank's website.

CORPORATE GOVERNANCE STATEMENT

continued

Shareholder meetings

The Board encourages shareholders to attend the AGM and to take the opportunity to ask questions of the Board. The meeting is held at an accessible venue in Melbourne. For shareholders unable to attend, the meeting is webcast live, and is then made available on Medibank's website. The external auditor attends the AGM and is available at the meeting to answer questions relevant to the auditor's report.

Medibank provides shareholders with a clear and concise notice of meeting setting out the business to be considered, including all material information relevant to the election or re-election of directors. These materials, together with the presentations at the AGM and the voting results, are released to the ASX and then made available in the AGM section of Medibank's website.

Integrity of financial reporting

The Board has a strong commitment to the integrity and quality of its financial reporting and its systems for risk management, compliance and internal control.

The Audit Committee provides a non-executive review of the effectiveness of Medibank's financial reporting framework, and assists the Board in carrying out its accounting, auditing, and financial reporting responsibilities.

The Audit Committee currently comprises four non-executive directors. The chairman of the committee is an independent non-executive director who is not the chairman of the Board. Committee members are appointed based on their qualifications and experience to ensure that the committee can adequately discharge its duties. The current committee comprises directors with accounting and financial expertise and experience, and who between them have a deep understanding of the health and insurance industries and includes at least one director who is a member of the Risk management Committee. Any director may attend committee meetings. Representatives of management, the manager responsible for internal audit, the Chief Actuary, and the external auditors are invited as required.

Financial reporting assurances

The preparation of the full year and half year financial statements is subject to a detailed process of review and approval by the Board supported by the Audit Committee.

As required under section 295A of the Corporations Act, the Board receives a declaration from the Chief Executive Officer and the Chief Financial Officer that the financial records of the company have been properly maintained and that the financial statements and notes comply with accounting standards and give a true and fair view of the consolidated entity's financial position and performance for the financial period. This includes a written declaration that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively in all material respects in relation to financial reporting risks.

This declaration was received by the Board prior to approving the financial statements for the half year ended 31 December 2016 and the full year ended 30 June 2017.

Internal audit

Medibank has an internal audit function. Its role is to provide independent and objective assurance to the Audit Committee on the adequacy and effectiveness of the risk management framework, financial reporting processes and internal control and compliance systems. The annual internal audit plan, which is approved by the committee, is developed using a risk-based approach and is driven by Medibank's strategy, risk profile and governance principles. The internal audit charter provides the internal audit team unrestricted access to review all activities of the business. The internal audit function is supplemented by the engagement of external subject matter experts when required.

The head of the internal audit function is the General Manager Internal Audit. To ensure the independence of the internal audit function the role reports directly to the committee chairman, with a direct communication line to the Chief Executive Officer and administrative reporting line to the Chief Financial Officer. The General Manager Internal Audit reports to each committee meeting on progress against the annual internal audit plan, audit findings and recommendations, business insights and the status of management actions.

Risk management

Medibank maintains a system of risk oversight, risk management and internal control over material business risks, including accuracy of financial reporting. This is designed to provide reasonable assurance of the implementation of the Board's financial reporting policies, the integrity of the Group's financial reporting and management of its material business risks within the Board-approved risk appetite.

Material business risks are discussed in the operating and financial review section on page 11 of the annual report and can be broadly categorised as strategy, insurance, financial, operational, regulatory and reputational risks. These include economic sustainability risks. Medibank has not identified any material exposures to environmental or social sustainability risks.

Risk management framework

Medibank's risk management framework encompasses the systems, structures, policies, processes and people that manage its material risk categories. It ensures that risk appetite, the material risks that Medibank is exposed to, and the accountability for risk assessment and risk management is defined, understood and applied across the organisation.

During 2017, management revised the risk management framework to more closely align with APRA Prudential Standard CPS 220 – Risk Management. This process will continue in the coming year in the lead up to that standard being applied to the private health insurance industry from 1 April 2018.

Governance

The Board has overall responsibility for Medibank's risk management framework including determining the risk appetite for Medibank. The Board reviews the risk framework at least annually and satisfies itself that management has developed and implemented a sound system of risk management and internal control to meet prudential and statutory requirements. The Board reviewed the risk management framework during 2017 and concluded that it is sound.

The newly established Risk Management Committee assists the Board in setting the risk appetite and monitoring whether the business is operating within the limits set. Currently, the Committee comprises five non-executive directors and at least one of whom is a member of the Audit Committee. The chairman of the Committee is an independent non-executive director who is not the chairman of the Board. Committee members are appointed based on their qualifications and experience to ensure that the committee can adequately discharge its duties.

The Board is further assisted by the Investment and Capital Committee, which oversees the implementation and monitoring of the Investment Strategy and Capital Management Policy approved by the Board, including monitoring the effectiveness of the investment process in achieving optimum return relative to risk.

Medibank has a three lines of defence approach to risk management accountability.

First line: Management is accountable for identifying, assessing, monitoring and managing material risks in the business. They are responsible for decision making and the execution of business activities, whilst managing risk to ensure it is in line with the board's risk appetite and strategy.

Second line: The Enterprise Risk function provides objective advice and challenge to the first line on risk and control activities and provides assurance and guidance on the design and implementation of appropriate risk management activities. To ensure the independence of the risk function, the Chief Risk Officer reports (with a dotted line) to the Chair of the Risk Management Committee.

Third line: Internal Audit provides independent assurance to the Audit Committee and the Board on the adequacy and effectiveness of the risk management framework, financial reporting processes and internal control and compliance systems operating at the first and second line.

Strategy and appetite

The Board approved risk appetite statement articulates its expectations of the amount and nature of risk Medibank is willing to accept in the pursuit of its strategic objectives. This helps guide the development of Medibank's corporate strategy to ensure that the impacts of strategic objectives on the risk profile are within the Board's risk appetite and will be effectively managed.

Risk management process

Medibank's risk management framework sets out clearly-defined criteria to analyse, evaluate and prioritise material business risks. This includes systematically assessing risk consequences in terms of impact upon clinical governance, employee health and safety, financial performance and position, regulatory and legal obligations, reputation and operations. It also sets out the criteria for assessing the effectiveness of the control environment.

This corporate governance statement is accurate and up-to-date as at 25 August 2017 and has been approved by the Board.

DIRECTORS' REPORT

For the financial year ended 30 June 2017

The directors of Medibank Private Limited (Medibank) present their report on the consolidated entity consisting of Medibank and the entities it controlled (collectively referred to as the Group) for the year ended 30 June 2017.

References to 2016 and 2017 are to the financial years ended on 30 June 2016 and 30 June 2017 respectively unless otherwise stated.

Directors

The names of directors in office during the year and up to the date of this report, unless stated otherwise, are as follows:

- Elizabeth Alexander AM – Chairman
- Craig Drummond – Chief Executive Officer
- Anna Bligh AC
- David Fagan
- Dr Cherrell Hirst AO
- Peter Hodgett
- Linda Bardo Nicholls AO
- Christine O'Reilly
- Mike Wilkins AO (appointed 25 May 2017)

On 28 July 2017, Medibank announced the retirement of Dr Cherrell Hirst and appointment of Dr Tracey Batten effective 28 August 2017.

Details of each director's qualifications, experience and special responsibilities are set out on pages 13 to 15 and form part of the directors' report.

Principal activities

The principal activities of the Group during the financial year were as a private health insurer, whereby it underwrites and distributes private health insurance policies under its two brands, Medibank and ahm. Medibank is also a provider of related services through the Medibank Health businesses (formerly known as "Complementary Services"), which capitalise on Medibank's experience and expertise, and support the Health Insurance business. There were no significant changes in the nature of those activities during the year.

Operating and financial review

Details of the operating and financial review of the Group including a review of operations during the year and results of those operations is included in the operating and financial review on page 6 of this report.

Significant changes in state of affairs

There were no significant changes in the state of affairs of the Group during the year.

Events since end of financial year

No matter or circumstance has arisen since the end of the financial year that has significantly affected, or may significantly affect, Medibank's operations, the results of those operations, or Medibank's state of affairs in future financial years. Details of subsequent events are set out in Note 21 to the financial statements.

Dividends

Dividends paid or declared by the Company during and since the end of the year are set out in Note 6 to the financial statements and further set out below:

- A dividend of 6.0 cents per share (fully franked) was declared in respect of the six-month period to 30 June 2016 and paid on 28 September 2016 to shareholders registered on 7 September 2016;
- An interim dividend of 5.25 cents per share (fully franked) was declared in respect of the six-month period to 31 December 2016 and paid on 29 March 2017 to shareholders registered on 8 March 2017; and
- A final dividend of 6.75 cents per share (fully franked) has been declared in respect of the six-month period to 30 June 2017 payable on 28 September 2017 to shareholders registered on 7 September 2017.

Directors' attendance at meetings

The table below shows the number of Board and committee meetings held and the number of meetings attended by directors during the year:

Director	Board		Audit and Risk Management Committee ³		Investment and Capital Committee		Nomination Committee		People and Remuneration Committee		Board Subcommittee	
	A	B	A	B	A	B	A	B	A	B	A	B
Elizabeth Alexander	15	15	5	5		4 ¹	2	2		4 ¹	3	3
Anna Bligh	15	15		1 ¹	4	4		1 ¹	5	5		
Craig Drummond	15	13		5 ¹	4	4		2 ¹		5 ¹	3	3
David Fagan	15	14		5 ¹	4	4		2 ¹	5	5	1	1
Dr Cherrell Hirst	15	15	5	5		3 ¹		1 ¹	5	5		
Peter Hodgett	15	15	5	5	4	4	2	2		4 ¹		
Linda Bardo Nicholls	15	11 ²		4 ¹		3 ¹	2	2	5	5		
Christine O'Reilly	15	15	5	5		3 ¹	2	2		2 ¹	2	2
Mike Wilkins ⁴	1	1	-	-	-	-	-	-	-	-		

A. Indicates the number of meetings held during the time the director held office or was a member of the committee during the year.

B. Indicates the number of meetings attended during the period.

1. Indicates that the director attended committee meetings by invitation.

2. Ms Nicholls was an apology for three Board meetings due to illness.

3. Effective 1 July 2017, Board established two separate committees being the Audit Committee and the Risk Management Committee replacing the former Audit and Risk Management Committee.

4. Mr Wilkins was appointed as a director on 25 May 2017 and appointed as a member of the Investment and Capital Committee, and Risk Management Committee, effective 1 July 2017.

Options and performance rights

During the financial year 1,891,062 performance rights were issued to senior executives pursuant to Medibank's Performance Rights Plan. No performance rights have been issued since the end of the financial year up to the date of this report.

During the financial year 1,384,800 performance rights became eligible to vest and were exercised. Further information regarding performance rights is included in the remuneration report on page 32.

Directors' interests in securities

The relevant interests of directors in Medibank securities at the date of this report were:

Director	Ordinary shares	Performance rights
Elizabeth Alexander	124,786	-
Craig Drummond	50,000	765,306
Anna Bligh	15,646	-
David Fagan	30,016	-
Dr Cherrell Hirst	15,921	-
Peter Hodgett	67,800	-
Linda Bardo Nicholls	27,150	-
Christine O'Reilly	69,930	-
Mike Wilkins	-	-

DIRECTORS' REPORT continued

For the financial year ended 30 June 2017

Environmental regulation

The Group's operations are not subject to any particular or significant environmental regulation under either Commonwealth or State law.

Indemnification and insurance of directors and officers

Medibank's constitution permits Medibank to indemnify, to the maximum extent permitted by law, every person who is or has been a director or officer or senior manager of the Group. The indemnity applies to liabilities incurred by a person in the relevant capacity (except liability for legal costs). The indemnity may however also apply to certain legal costs incurred in obtaining advice or defending legal proceedings. Further, Medibank's constitution permits Medibank to maintain and pay insurance premiums for a director and officer liability insurance covering every person who is or has been a director or officer or senior manager of the Group, to the extent permitted by law.

Consistent with the provisions in Medibank's constitution, Medibank has entered into deeds of indemnity, insurance and access with current and former directors. Under these deeds, Medibank:

- indemnifies current and former directors against liabilities incurred as a director to the maximum extent permitted by law;
- is required to maintain a directors' and officers' insurance policy covering current and former directors against liabilities incurred in their capacity as directors. Disclosure of the insurance premium and the nature of the liabilities covered by the insurance are prohibited by the contract of insurance; and
- grants current and former directors access to Medibank's records for the purpose of defending any relevant action.

Auditor's independence declaration

A copy of the auditor's independence declaration given by PricewaterhouseCoopers in relation to its compliance with independence requirements of section 307C of the Corporations Act is set out on page 111.

Non-audit services

The Group may decide to employ its external auditor, PricewaterhouseCoopers, on assignments additional to its statutory audit duties, where the auditor's expertise and experience with the Group are important. PricewaterhouseCoopers will only be engaged to provide a permissible non-audit service where there is a compelling reason for it to do so, and will not be engaged to perform any service that may impair or be perceived to impair its judgement or independence.

PricewaterhouseCoopers did not provide any non-audit services to the Group during the year.

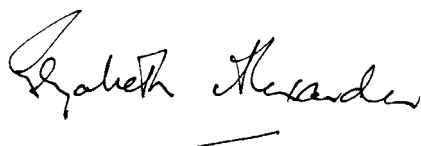
The amounts paid or payable for services provided by PricewaterhouseCoopers were:

Year ended 30 June	2017 \$'000	2016 \$'000
Audit fees	1,571.1	1,358.5
Assurance services fees:		
Audit of regulatory returns	119.5	119.5
Non-audit service fees:		
Taxation services	-	105.0
Other	-	49.0
Total	1,690.6	1,632.0

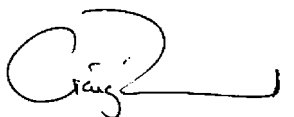
Rounding of amounts

The amounts contained in this report and in the financial report have been rounded to the nearest hundred thousand dollars (where rounding is applicable) unless specifically stated otherwise under the relief available pursuant to ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. Medibank is an entity to which that relief applies.

This report is made in accordance with a resolution of the directors.



Elizabeth Alexander AM
Chairman



Craig Drummond
Chief Executive Officer

25 August 2017
Melbourne

REMUNERATION REPORT

For the financial year ended 30 June 2017

Dear Shareholder,

We are pleased to present Medibank's 2017 remuneration report. Each year the Board determines remuneration outcomes after consideration of Company performance, individual performance and shareholder expectations. This ensures remuneration practices remain effective at attracting and retaining talented people to deliver long-term sustainable shareholder value.

After joining Medibank as Chief Executive Officer (CEO) on 4 July 2016, Craig Drummond made a number of changes to the Executive Leadership Team (ELT) to ensure Medibank had the right team in place to achieve its strategic objectives. Mei Ramsay joined the ELT as Group Executive – Legal, Governance & Regulatory Affairs (effective 14 September 2016); John Goodall joined as Group Executive – Technology & Operations (effective 5 December 2016); and Mark Rogers joined as Group Executive – Chief Financial Officer (effective 3 January 2017).

Board succession planning and renewal is a key focus for Medibank to ensure the Board has the appropriate mix of skills, experience, expertise and diversity critical to Medibank's strategic success. With this in mind, both Mike Wilkins (effective 25 May 2017) and Dr Tracey Batten (effective 28 August 2017) were appointed as non-executive directors to the Medibank Board in 2017. While Mike was appointed as an additional Board member, Tracey's appointment follows the retirement of Dr Cherrell Hirst after eight years on the Medibank Board.

Incentive payments

Short-term incentive (STI) awards for ELT members were lower this year in comparison to 2016, averaging 44 percent of their maximum opportunity. This outcome reflects both Group operating profit and Brand Net Promoter Score (NPS) being within target expectations and Health Insurance premium revenue growth performing below target expectations.

Medibank's 2015 long-term incentive (LTI) was tested following the completion of the performance period on 30 June 2017. Medibank's earnings per share (EPS) growth and relative total shareholder return (TSR) performance over the performance period resulted in a vesting outcome of 94 percent. In line with previous years, ELT members were granted LTI in 2017 that will be tested at the end of the 2019 financial year against two separate performance hurdles.

2018 remuneration settings

Following a review of fixed remuneration levels of ELT members against the median of Medibank's market comparator group, the fixed remuneration of executives other than the CEO was increased by 3.6 percent on average, effective 1 July 2017. The CEO's fixed remuneration was increased by 2.3 percent to \$1,534,000.

Board and committee fees were also reviewed against the median of Medibank's market comparator group with all committee chair fees aligned to \$35,000 and committee member fees aligned to \$17,000. There was no change to either the annual base non-executive director or Chairman fees. Current Board and committee fees of \$1,837,000, which includes the fees for an additional Board member and the introduction of standalone Audit and Risk committees in line with APRA recommendations, remain within the annual fee cap of \$2 million which was established at listing.

The full report that follows provides readers with a detailed view of the items outlined above and shareholders are encouraged to vote in favour of the report's adoption at our annual general meeting (AGM) in November.

Yours sincerely,



Linda Bardo Nicholls AO

Chairman, People and Remuneration Committee

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REMUNERATION REPORT continued

For the financial year ended 30 June 2017

1. Key management personnel overview

This report outlines the remuneration arrangements for the key management personnel (KMP) of Medibank, which includes all non-executive directors and executives who have authority and responsibility for planning, directing and controlling the activities of the Group.

The following executives were classified as KMP during the 2017 financial year, each of whom is, or was, a member of Medibank's Executive Leadership Team.

ELT member	Position	Term as KMP	Contract type	Notice period employee	Notice period Medibank
Craig Drummond	Chief Executive Officer	4 July 2016 – Current	Ongoing	6 months	12 months
Kylie Bishop	Group Executive – People & Culture	12 July 2013 – Current	Ongoing	3 months	6 months
John Goodall	Group Executive – Technology & Operations	5 December 2016 – Current	Ongoing	3 months	6 months
David Koczkar	Group Executive – Chief Customer Officer	31 March 2014 – Current	Ongoing	3 months	6 months
Mei Ramsay	Group Executive – Legal, Governance & Regulatory Affairs	14 September 2016 – Current	Ongoing	3 months	6 months
Mark Rogers	Group Executive – Chief Financial Officer	3 January 2017 – Current	Ongoing	3 months	6 months
Andrew Wilson	Group Executive – Healthcare & Strategy	1 July 2010 – Current	Ongoing	3 months	6 months
Former ELT member					
Tom Exton	Acting Group Executive – Chief Financial Officer	14 September 2016 – 2 January 2017	Ongoing	3 months	3 months
Paul Koppelman	Group Executive – Chief Financial Officer	7 May 2012 – 13 September 2016	Ceased	3 months	6 months

The remuneration framework and outcomes for non-executive directors are detailed in sections 10 to 12 of this report.

2. Summary of remuneration outcomes

Key remuneration outcomes for executives and non-executive directors during the year are summarised below, with detailed information contained in sections 6 and 10 of this report.

Component	Outcomes
Fixed remuneration	<ul style="list-style-type: none"> The Chief Executive Officer (CEO) received an increase of 2.3 percent effective 1 July 2017. Remuneration for executives (other than the CEO and executives that joined the Executive Leadership Team during the year) increased by 14.7 percent from 1 July 2016. The fixed remuneration of executives other than the CEO was increased by 3.6 percent on average, effective 1 July 2017.
Short-term incentive (STI)	<ul style="list-style-type: none"> Performance on both Group operating profit and Brand Net Promoter Score (NPS) were within target expectations and Health Insurance premium revenue growth performing below target expectations. The CEO received a short-term incentive (STI) payment of \$1,195,402 (or 53 percent of maximum opportunity), of which 50 percent is paid in cash and 50 percent in performance rights that are deferred for 12 months. The average STI awarded to executives other than the CEO was 43 percent of their maximum opportunity, 50 percent of which is deferred for 12 months in the form of performance rights.
Long-term incentive (LTI)	<ul style="list-style-type: none"> Long-term incentive (LTI) grants were made in 2017 in accordance with the target remuneration mix for each executive. Performance hurdles for LTI awards made in 2015 were tested in July 2017 with 94 percent vesting. Unvested performance rights have been forfeited in accordance with plan rules.
Other payments	<ul style="list-style-type: none"> Mark Rogers, Group Executive – Chief Financial Officer was granted 89,605 performance rights after commencement to compensate for incentives forfeited on ceasing his previous employment to join Medibank. The award will vest during January 2018 subject to the achievement of service conditions.
Non-executive director fees	<ul style="list-style-type: none"> Base and committee fees for non-executive directors were increased by an average of 9.9 percent with effect from 1 July 2016. Total amount paid to non-executive directors in 2017 was \$1,597,854 (2016 \$1,441,028). No change was made to the annual base fees for the Chairman and non-executive directors for 2018. All committee chair fees were aligned to \$35,000 and all committee member fees were aligned to \$17,000 with effect from 1 July 2017.

3. Remuneration governance

Medibank's remuneration framework is designed to support the successful execution of our strategy by ensuring we attract, reward and retain talent. Employees are rewarded for performance that delivers business outcomes and shareholder wealth creation consistent with the organisation's risk management framework, and applicable regulations.

3.1 The role of Board in remuneration

The People and Remuneration Committee is a committee of the Board. Its role is to assist and advise the Board on people and culture policies and practices, including remuneration. These policies and practices are designed to:

- enable Medibank to attract, retain and motivate non-executive directors, executives and employees who will create value for shareholders within an appropriate risk management framework. This is achieved by providing remuneration packages that are competitive, internally relative and aligned with the long-term interests of Medibank and its shareholders;
- be fair and appropriate having regard to the performance of Medibank and the relevant non-executive director, executive or employee;
- ensure any termination benefits are justified and appropriate; and
- comply with relevant legal requirements.

REMUNERATION REPORT continued

For the financial year ended 30 June 2017

The Charter of the People and Remuneration Committee can be found in the corporate governance section of the Medibank website.

As at 30 June 2017, the People and Remuneration Committee comprised the following independent non-executive directors:

- Linda Bardo Nicholls AO (Chairman);
- Dr Cherrell Hirst AO;
- Anna Bligh AC; and
- David Fagan.

For meeting attendance information with respect to the People and Remuneration Committee, refer to directors' attendance table on page 29 of the directors' report. For biographical information on the Medibank non-executive directors, including those listed above, refer to pages 13 to 15 of the directors' report.

3.2 Use of remuneration consultants

The Board directly engages external advisors to provide input to the process of reviewing Executive Leadership Team (ELT) and non-executive director remuneration. During the year ended 30 June 2017, the Chairman of the Board engaged KPMG to provide the following to assist the Board in its decision making:

- Benchmarking data in respect of ELT and non-executive director remuneration;
- Information regarding market practices for short-term incentive (STI) and long-term incentive (LTI) performance measures, LTI grant methodology and dividends forgone;
- Assistance with shareholder communication including the remuneration report, AGM preparation and ASX announcements; and
- Accounting information including valuations and relative total shareholder return (TSR) calculations.

The engagement of KPMG was undertaken directly by the Board, independent of management, and based on an agreed set of protocols governing the manner in which the engagement would be developed by KPMG and provided to the Board. These protocols ensure that the following steps are taken:

- KPMG takes instructions from the People and Remuneration Committee and the Board, and is accountable to the Board for all work completed;
- During the course of any assignment KPMG may seek input from management, however, deliverables are provided directly to the committee and considered by Board; and
- Professional fee arrangements are agreed directly with the Chairman of the Board.

The work undertaken by KPMG in 2017 did not constitute a remuneration recommendation for the purposes of the Corporations Act 2001.

3.3 Executive remuneration policies

3.3.1 Performance evaluation of ELT members

At the outset of each performance year, the Board determines the measures against which ELT members will be assessed. The measures are a combination of Company and role-specific performance measures and may change from year to year. These measures are combined to form a balanced scorecard against which each ELT member is individually assessed when determining both fixed remuneration increases and STI outcomes at the conclusion of each performance year. STI outcomes are also subject to ELT members meeting their individual compliance obligations and the Company meeting a target level of Group operating profit, which acts as a gateway to any STI payment being made. Additional detail on STI performance measures are included in sections 5.3 and 6 of this report and further information on fixed remuneration levels for ELT members is outlined in section 5.2.

At the completion of the performance year, the Chief Executive Officer (CEO) reviews each ELT member against the role-specific measures and presents an evaluation of their performance to Board. The Board then reviews the CEO's evaluations and reserves ultimate discretion over performance outcomes to ensure alignment with shareholder expectations.

The performance of the CEO is reviewed by the Chairman in consultation with other non-executive directors, to ensure remuneration outcomes are aligned with Company performance and shareholder expectations.

3.3.2 Clawback of executive performance-based remuneration

The Board has an Executive Remuneration Clawback Policy that provides discretion to the Board to reduce, cancel, or recover (clawback) any performance-based awards made to a senior executive employee in certain circumstances:

- Serious misconduct or fraud by the employee;
- Unsatisfactory performance by the employee to the detriment of strategic Company objectives;
- Error in the calculation of a performance measure related to performance-based remuneration;
- A misstatement of the Group's financial statements; or
- The Board becomes aware of any other action that it determines (acting in good faith) has resulted in the employee receiving an inappropriate benefit.

The Executive Remuneration Clawback Policy provides that, if any of these events had occurred in the previous five financial years, the Board may, in its absolute discretion, withhold an employee's performance-based payments, require the repayment of all, or part of, previous performance-based awards, or require the forfeiture of previously deferred and unvested performance-based rewards.

3.3.3 Executive shareholding requirements

ELT members are subject to a Minimum Shareholding Policy that is designed to strengthen their alignment with shareholders and create a vested interest in the long-term performance of Medibank. The policy requires ELT members to hold Medibank shares with a value equivalent to 100 percent of their annual fixed remuneration within five years of appointment to the ELT.

All Medibank shares and unvested performance rights that are subject to a tenure-based hurdle held by, or on behalf of, the executive (for example within a family trust or self-managed superannuation fund where they are the beneficial owner) will count towards satisfaction of the minimum shareholding requirement.

ELT members are restricted from selling their vested employee equity holdings (other than to satisfy income tax obligations) until they meet the minimum shareholding requirement.

As at 30 June 2017, progress towards the minimum shareholding requirement for each permanent ELT member is provided below:

ELT member	Minimum shareholding requirement \$ ¹	Value of eligible shareholdings as at 30 June 2017 \$ ²	Minimum shareholding requirement deadline
Craig Drummond	1,500,000	140,000	4 July 2021
Kylie Bishop	490,000	575,658	25 November 2019
John Goodall	500,000	-	5 December 2021
David Koczkar	825,000	1,037,201	25 November 2019
Mei Ramsay	523,260	-	14 September 2021
Mark Rogers	690,000	250,894	3 January 2022
Andrew Wilson	920,000	813,548	25 November 2019

1. Minimum shareholding requirement based on ELT members' total fixed remuneration (TFR) as at 30 June 2017.

2. Holding value is calculated with reference to the total number of eligible shares or performance rights held by each ELT member, multiplied by the closing price of Medibank's shares on 30 June 2017 (\$2.80).

3.3.4 Share Trading Policy

In line with market practice, Medibank has a Share Trading Policy to ensure that all employees understand their obligations in relation to dealing in Medibank shares. The Share Trading Policy describes restrictions on buying and selling Medibank shares for non-executive directors and other Medibank employees.

In addition, non-executive directors, ELT members, other senior employees and employees with potential access to inside information are deemed to be "Restricted Employees". They are required to seek approval before dealing in Medibank shares and are subject to share trading blackouts prior to financial result announcements and other times, as required. The policy also prohibits employees from entering into transactions relating to Medibank shares which limit their economic risks, including in relation to the LTI Plan and equity-based component of the STI Plan.

Medibank's Share Trading Policy can be found on the corporate website under Corporate Governance.

REMUNERATION REPORT continued

For the financial year ended 30 June 2017

3.3.5 Termination provisions in ELT member contracts

Termination provisions included in ELT member contracts are limited to six months payment of fixed remuneration, in lieu of notice, or 12 months in the case of the CEO.

If an ELT member is assessed by the Board as a 'good leaver' (meaning they cease employment by reason of death, serious disability, permanent incapacity, retirement, redundancy or with Board approval), the cash STI award in respect of the performance year in which they leave would be paid on a pro rata basis at the end of the STI performance period. The deferred component of the STI award will be paid in cash (rather than performance rights) on a pro rata basis with payment deferred until 12 months following the payment of the cash component. Any previously deferred STI remains restricted until the applicable vesting date, unless determined otherwise by the Board. Performance rights issued as LTI are retained on a pro rata basis by a 'good leaver'. Retained performance rights remain unvested and subject to the same vesting conditions that will be assessed at the end of the performance period. Further details of the termination provisions that relate to the STI and LTI plans are detailed in section 5 of this report.

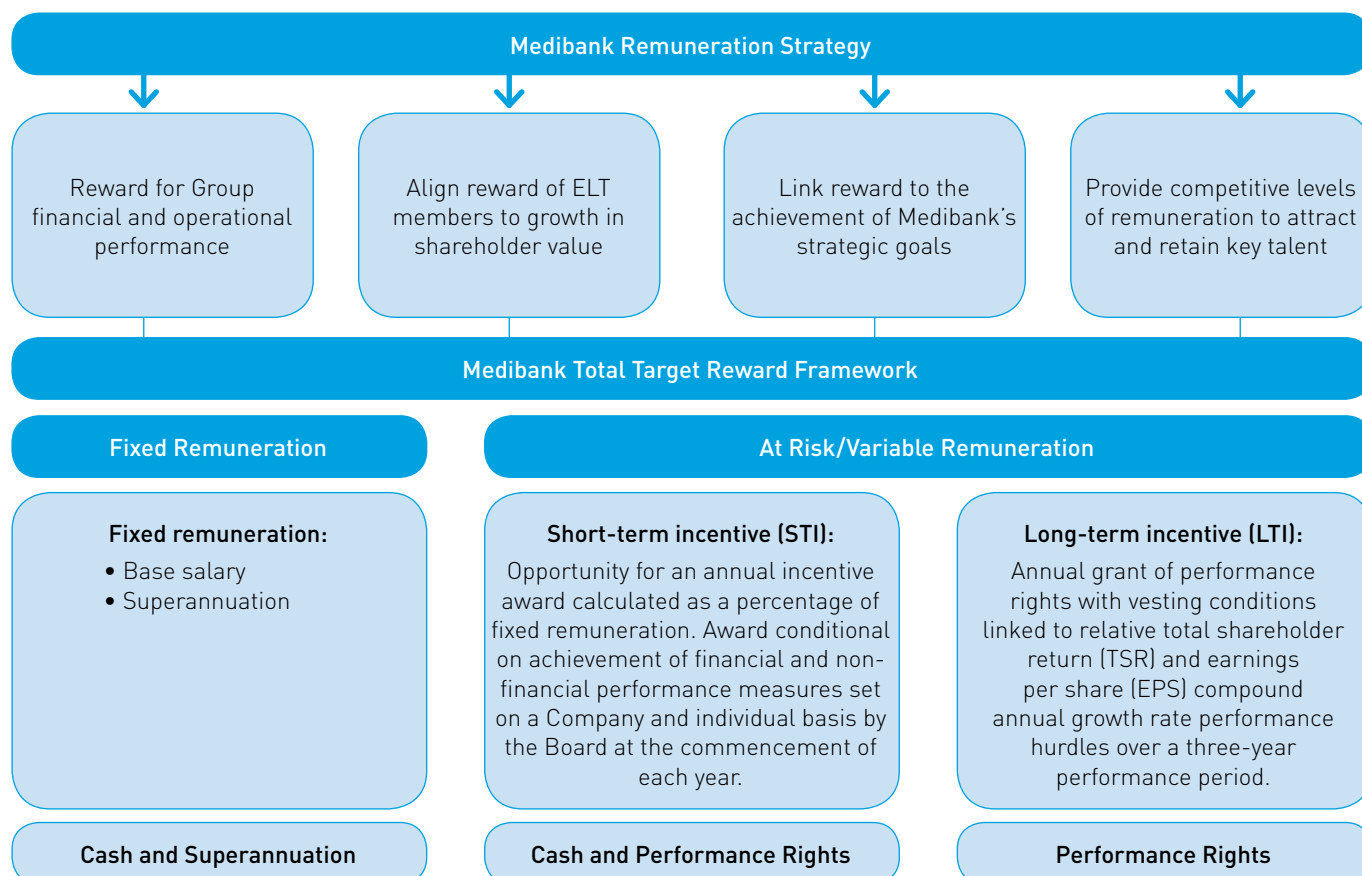
4. Remuneration strategy

Medibank's remuneration strategy is designed to focus Executive Leadership Team (ELT) members on executing Group strategy and achieving business objectives to increase shareholder value. To achieve this, Medibank's remuneration framework has been developed to link remuneration to business outcomes, individual performance and behaviour. It is designed to:

- Align the interests of ELT members with increasing shareholder value;
- Reward ELT members for the achievement of Medibank's strategic goals (financial and operational) against targets set with reference to appropriate benchmarks;
- Ensure remuneration is fair and appropriate having regard to the performance of Medibank and the relevant executive; and
- Provide the necessary levels of remuneration to attract and retain key talent.

The diagram below illustrates the relationship between Medibank's remuneration strategy and reward framework.

Figure 1



5. Executive remuneration mix

In determining the mix of executive remuneration at Medibank, the Board aims to find a balance between:

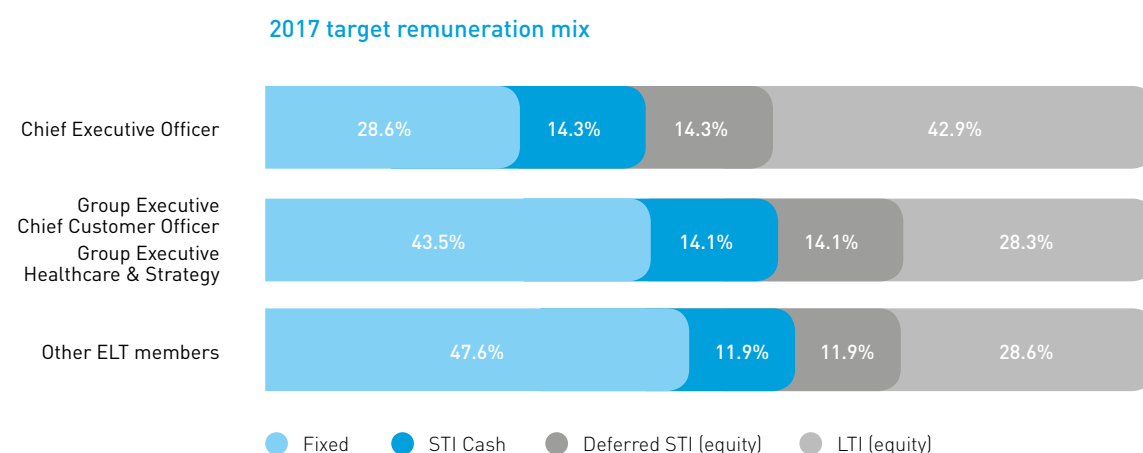
- fixed and at-risk remuneration;
- short-term and long-term remuneration; and
- remuneration delivered in cash and deferred equity.

5.1 Remuneration overview

Target remuneration for Executive Leadership Team (ELT) members is designed to reward sustained business performance that benefits both shareholders and customers. Consistent with this strategy is the mix between fixed and variable remuneration and the deferral arrangements in place for both STI and LTI.

The illustration below provides an overview of the 2017 target remuneration mix for the Chief Executive Officer and other ELT members.

Figure 2



5.2 Total fixed remuneration

Total fixed remuneration (TFR) represents the fixed portion of executive remuneration and includes base salary and employer superannuation contributions.

5.2.1 2017 total fixed remuneration

Fixed remuneration is determined with reference to the executive's level of knowledge, skill and experience and the size and complexity of the roles. To inform the setting of competitive fixed remuneration levels, the Board has regard for disclosed market-related median pay levels from companies in the ASX 11-100 (excluding mining and energy companies).

Details of 2017 fixed remuneration levels for all permanent ELT members are provided below:

ELT member	Total fixed remuneration 2017 \$ ¹	Total fixed remuneration 2018 \$
Craig Drummond	1,500,000	1,534,000
Kylie Bishop	490,000	550,000
John Goodall	500,000	525,000
David Koczkar	825,000	845,000
Mei Ramsay	523,260	523,260
Mark Rogers	690,000	690,000
Andrew Wilson	920,000	940,000
Former ELT member		
Paul Koppelman	690,000	n/a

1. 2017 TFR for ELT members was effective from 1 July 2016 for Kylie Bishop, David Koczkar and Andrew Wilson, and from the respective commencement dates as ELT members for Craig Drummond, John Goodall, Mei Ramsay and Mark Rogers.

REMUNERATION REPORT continued

For the financial year ended 30 June 2017

5.3 Short-term incentive (STI)

ELT members are eligible to participate in Medibank's STI Plan. The target and maximum annual STI that may be awarded to ELT members is expressed as a percentage of their respective TFR.

5.3.1 Annual STI opportunity

The table below represents the target and maximum annual STI opportunity as a percentage of TFR for permanent ELT members in 2017.

ELT member	2017		2018	
	Target	Maximum	Target	Maximum
Craig Drummond	100%	150%	100%	150%
Kylie Bishop	50%	100%	50%	100%
John Goodall	50%	100%	50%	100%
David Koczkar	65%	100%	65%	100%
Mei Ramsay	50%	100%	50%	100%
Mark Rogers	50%	100%	50%	100%
Andrew Wilson	65%	100%	65%	100%
Former ELT member				
Paul Koppelman ¹	n/a	n/a	n/a	n/a

1. As Paul Koppelman ceased in his position as Group Executive – Chief Financial Officer effective 13 September 2016, he was not eligible for an award under the 2017 STI Plan.

5.3.2 Key features of the STI Plan

What is the Short-Term Incentive Plan?	An annual opportunity for ELT members to earn an incentive payment calculated as a percentage of their annual fixed remuneration conditional on the achievement of financial and non-financial measures.
Over what period is performance assessed?	The STI performance period is the financial year 1 July to 30 June.
How are STI payments delivered?	50 percent of STI awarded to ELT members is paid as cash, with the remaining 50 percent deferred for 12 months (deferred STI). Deferred STI is provided in the form of 12-month deferred performance rights.
When are STI payments made?	The cash component of STI is paid following the release of audited financial results, with performance rights for the deferred STI component granted shortly thereafter.
What method is used to determine the number of performance rights granted to each participant as part of the deferred STI?	Performance rights under the STI Plan are granted at face value. The deferred STI value for each ELT member is divided by the volume weighted average share price (VWAP) of Medibank shares to determine the number of units granted. For the 2017 deferred STI component the VWAP will be calculated on the 10 trading days up to and including 21 September 2017.
Are deferred STI performance rights entitled to receive a dividend payment?	Deferred STI performance rights do not attract dividends during the deferral period. To align participant outcomes with shareholders, on vesting of these performance rights additional Medibank shares are granted to ensure each participant receives a benefit equivalent to any dividends paid during the deferral period.

What are the performance measures under the STI Plan?	<p>Performance measures under the STI Plan are determined by the Board at the commencement of each performance period. For 2017, the performance measures were:</p> <ul style="list-style-type: none"> • Group operating profit (excluding investment income); • Brand Net Promoter Score (NPS); • Health Insurance premium revenue growth; and • Role-specific metrics. <p>STI outcomes are also subject to the following gateways: ELT members meeting their individual compliance obligations for the performance period and the Company meeting a target level of Group operating profit.</p> <p>Further detail on each performance measure and how performance is measured under the STI Plan is outlined in sections 6.1 and 6.2.</p>
What is the relationship between Company performance and the award of STI?	At the commencement of each performance period, the Board sets target and stretch performance levels for each of the Company and role-specific performance measures. STI awards are only made for performance at or above target.
Does Medibank disclose STI performance targets?	Due to the commercially sensitive nature of STI performance targets, Medibank does not believe it is in the best interests of the Company or shareholders to disclose this information. However, Section 6.2 of this report provides a detailed description of Medibank's STI performance measures and a brief description of how the organisation has performed against each measure in 2017.
What happens to STI entitlements if an ELT member leaves the Company?	<p>Pro rata payment of STI applies to ELT members who leave the Company other than those who resign, are terminated due to misconduct, fraud and/or unsatisfactory performance.</p> <p>Section 3.3.5 provides additional information on the treatment of STI for people deemed as good leavers by the board.</p>
In what circumstances are STI entitlements forfeited?	In the event an ELT member resigns or their employment is terminated due to misconduct, fraud and/or unsatisfactory performance, the ELT member will forfeit any payment under the STI Plan, including any unvested deferred STI grants, unless otherwise determined by the Board.

REMUNERATION REPORT continued

For the financial year ended 30 June 2017

5.4 Long-term incentive (LTI)

In 2015 Medibank established a Performance Rights Plan to enable the creation of an LTI Plan designed to focus Medibank's ELT members on delivering sustained business performance and shareholder value.

The table below represents the annual LTI allocation value as a percentage of TFR for permanent ELT members in 2017.

5.4.1 Annual LTI allocation

	2017 LTI value as % of TFR	2018 LTI value as % of TFR
ELT member		
Craig Drummond	150%	150%
Kylie Bishop	60%	60%
John Goodall	60%	60%
David Koczkar	65%	65%
Mei Ramsay	60%	60%
Mark Rogers	60%	60%
Andrew Wilson	65%	65%
Former ELT member		
Paul Koppelman ¹	n/a	n/a

1. As Paul Koppelman ceased in his position as Group Executive, Chief Financial Officer effective 13 September 2016, he was not eligible to participate in the 2017 LTI offer.

5.4.2 Key features of the LTI Plan

What is the Long-Term Incentive Plan?	An opportunity for ELT members to earn an incentive payment for the achievement of performance hurdles over a three-year period. Participants receive performance rights at the beginning of the performance period which vest subject to achieving specific/performance hurdles.
What is the aim of the LTI Plan?	<p>The Medibank LTI Plan is designed to:</p> <ul style="list-style-type: none"> Align the interests of ELT members more closely with the interests of shareholders, by providing an opportunity for those executives to receive an equity interest in Medibank through the granting of performance rights; and Assist in the motivation, retention and reward of ELT members over the three-year deferral period.
What is the performance period for 2017 LTI Plan?	The performance period for the 2017 LTI Plan is three financial years commencing 1 July 2016. A three-year performance period strikes a balance between providing a reasonable period to align reward with shareholder return and the LTI acting as a vehicle for executive motivation and retention.
What are performance rights?	Performance rights issued under the LTI Plan are conditional rights for the holder to subscribe for fully paid ordinary shares in the Company. Each performance right entitles the holder to subscribe for one ordinary share if the performance hurdles are met at the conclusion of the performance period. No amount is payable by the participant upon grant of the performance rights, or upon exercise of the performance rights once they have vested.
What method is used to determine the number of performance rights granted to each participant?	<p>Each ELT member receives a percentage of their fixed remuneration in LTI (refer to section 5.4.1 for details). This amount is then divided by the face value of Medibank shares.</p> <p>For the 2017 LTI Plan, the number of performance rights granted to each ELT member was determined using the volume weighted average price of Medibank shares on the ASX during the 10 trading days up to and including, 30 June 2016. That average price was \$2.94.</p>

What are the performance hurdles under the 2017 LTI Plan?	<p>Performance rights issued under the 2017 LTI Plan are subject to two separate performance hurdles:</p> <ul style="list-style-type: none"> • 50 percent of the performance rights are subject to a performance hurdle based on Medibank's earnings per share compound annual growth rate (EPS CAGR) over the performance period. The starting point for EPS will be calculated using Medibank's underlying profit as at 30 June 2016 and the performance period for the EPS performance hurdle will run for three years from 1 July 2016 through to 30 June 2019. Further detail on the profit measure used in the calculation of EPS is provided in section 5.4.3; and • 50 percent of the performance rights are subject to a relative total shareholder return (TSR) performance hurdle, measured over the performance period. Medibank's relative TSR will be compared to a comparator group comprising companies with a market capitalisation positioned within the ASX 11-100 (excluding mining and energy companies). <p>Both performance hurdles under the 2017 LTI Plan have threshold levels which need to be achieved before vesting commences. Details of these thresholds are outlined in the vesting schedule in section 5.4.3.</p>
When do the performance rights vest?	Performance hurdles are assessed as soon as practicable after the completion of the relevant performance period. The number of performance rights that vest (if any) will be relative to the achievement against the performance hurdles. See section 5.4.3 for the vesting schedule associated with each performance hurdle.
Are the performance hurdles re-tested?	No. Performance hurdles are only tested once at the end of the relevant performance period. Any performance rights that remain unvested at the end of the performance period will be immediately forfeited.
Are LTI performance rights entitled to receive a dividend payment?	LTI performance rights do not attract a dividend during the performance period, as they are still subject to performance hurdles that will determine the number of rights that convert to ordinary Medibank shares.
In what circumstances are LTI entitlements forfeited?	LTI entitlements are forfeited if performance hurdles are not met. In the event an ELT member is not considered a 'good leaver' (meaning they cease employment for any reason other than death, serious disability, permanent incapacity, retirement, redundancy or with Board approval), the performance rights held (granted, but not vested) by that participant on cessation of employment will be automatically forfeited.
What happens to LTI entitlements if an ELT member leaves the Company?	If an ELT member is a 'good leaver' (meaning they cease employment by reason of death, serious disability, permanent incapacity, retirement, redundancy, or with Board approval), a portion of the performance rights held (granted, but not vested) by that participant on cessation of employment will be forfeited on a pro rata basis according to a formula which takes into account the length of time the participant has held (granted, but not vested) the performance rights relative to the performance period for the grant. The retained performance rights will remain unvested and will be tested at the end of the performance period against the existing performance hurdles.

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For the financial year ended 30 June 2017

5.4.3 LTI hurdles explained

Performance rights issued under the 2017 LTI Plan are subject to two separate performance hurdles: 50 percent of the performance rights are subject to an EPS CAGR performance hurdle; and 50 percent are subject to a relative TSR performance hurdle. These performance hurdles were chosen by the Board as they are aligned with shareholders' interests and both measures are transparent, well understood and tested mechanisms to measure performance and provide a strong link between executive reward and shareholder wealth creation. Both hurdles are explained in detail below.

2017 EPS performance rights

For any of the 2017 EPS performance rights to vest, the EPS target, as determined by the Board, must be achieved. The percentage of 2017 EPS performance rights that vest, if any, will be determined at the end of the performance period by reference to the following vesting schedule:

Medibank's EPS CAGR over the performance period	Percentage of EPS performance rights that vest
Less than 5% EPS CAGR	Nil
At 5% EPS CAGR	50%
Between 5% and 9% EPS CAGR	Straight-line pro rata vesting between 50% and 100%
9% EPS CAGR or greater	100%

Medibank's performance against the EPS hurdle is calculated based on the CAGR of Medibank's EPS over the performance period. EPS is based on underlying profit which adjusts statutory net profit after tax (NPAT) where appropriate, for short-term outcomes that are expected to normalise over the medium to longer term, most notably in relation to the level of gains or losses from investments, due to the limited control that management has over these outcomes. The CAGR from an EPS base calculated at the beginning of the performance period will be calculated on Medibank's fully diluted EPS using Medibank's underlying NPAT for the year ending 30 June 2019. As set out in the table above, the resulting CAGR will determine the level of vesting for the EPS performance rights.

2017 TSR performance rights

For any of the 2017 TSR performance rights to vest, Medibank must achieve the threshold TSR ranking over the performance period. The percentage of the 2017 TSR performance rights that vest, if any, will be based on Medibank's TSR ranking at the end of the performance period, as set out in the following vesting schedule:

Medibank's TSR rank in the 2017 comparator group	Percentage of TSR performance rights that vest
Less than 50th percentile	Nil
Equal to 50th percentile	50%
Greater than 50th and up to 75th percentile	Straight-line pro rata vesting between 50% and 100%
At or above 75th percentile	100%

The TSR of Medibank and other companies within the comparator group, expressed as a compound annual rate of return, will be comprised of:

- (a) The change in share price of each company over the performance period. The change in share price is calculated using the VWAP of each entity over the 20 trading days leading up to and including the performance period start and end dates. The VWAP at the end of the performance period will be adjusted for any stock splits that occur during the performance period.
- (b) The value of all dividends and other shareholder benefits paid by each company during the performance period assuming that:
 - i. The dividends and shareholder benefits are reinvested in the relevant company at the closing price of the securities on the date the dividend or shareholder benefit was paid; and
 - ii. Franking credits are disregarded.

5.4.4 Comparator group for TSR performance rights

In line with the benchmark group chosen by the Board to position executive remuneration in 2017, the comparator group to be used for the 2017 TSR performance rights performance hurdle will be the ASX 11-100 (excluding mining and energy companies).

6. Linking remuneration and performance in 2017

6.1 Measuring performance

At the commencement of the 2017 financial year, the Board determined target and stretch levels of performance for each of the Company and role-specific short-term incentive (STI) performance measures for Executive Leadership Team (ELT) members. In setting target and stretch levels of performance, the Board considers a number of factors including prior year performance, Medibank's strategic objectives and shareholder expectations. The Board also ensures that performance levels are set for the current year in the context of achieving longer term financial and strategic goals.

At the completion of the performance year, ELT members are assessed against the Company and role-specific performance measures to determine STI award outcomes. For an ELT member to achieve a target STI award (as outlined in section 5.3.1), performance against all Company and role-specific measures must be at the target level of performance as set by the Board, in addition to meeting individual compliance obligations and the achievement of the Group operating profit gateway measure. Achievement of target performance would be in line with Medibank's strategic objectives and shareholder expectations.

A stretch STI award (therefore, award at maximum) for an ELT member would require stretch or above performance against all Company and role-specific measures as set by the Board, in addition to meeting individual compliance obligations and the achievement of the Group operating profit gateway measure. This would represent exceptional performance, well above those of Medibank's strategic plan and shareholder expectations.

6.2 2017 STI performance scorecard

The following table details the 2017 STI performance scorecard measures, weightings and assessment as applied to the Chief Executive Officer and other ELT members.

Measure	Description	Weighting		2017 performance assessment
		Chief Executive Officer	Other ELT members	
Group operating profit	Group operating profit is defined as gross profit less management expenses of the Group. Group operating profit excludes investment income (the exclusion of investment income reflects the limited influence that ELT members have over the external factors impacting investment returns).	Gateway	Gateway	Achieved
	Group operating profit represents the core financial measure for the annual STI Plan and reflects the Board's belief that it is the best measure of underlying business performance and value created for shareholders over the performance period.	45%	30%	On target
Brand Net Promoter Score	Brand Net Promoter Score (NPS) is a key customer advocacy metric that measures the likelihood of people recommending Medibank to their families and friends. This value is compared against Medibank's largest competitors (BUPA, NIB and HCF) over the same period. NPS outcomes for both Medibank and our competitors are independently assessed and calculated.	20%	20%	On target
Health Insurance premium revenue growth	Health Insurance premium revenue growth is defined as year on year percentage growth in revenue within Medibank's Health Insurance business. It represents a headline financial measure that is of particular focus for shareholders and focuses management on growing its customer base while retaining existing customers.	20%	25%	Below target
	Measured alongside the core metric of Group operating profit, the focus of this measure is sustainable and profitable revenue growth, to ensure optimal value creation for shareholders.			
Role-specific	Role-specific targets set on an individual basis against measurable KPIs.	15%	25%	Ranging between target and above target
	Measurable role-specific metrics are aligned to one of financial performance, leadership performance or the achievement of specific strategic objectives and chosen by Board to ensure achievement of Medibank's Group objectives for the year and to drive sustainable shareholder wealth creation.			

REMUNERATION REPORT continued

For the financial year ended 30 June 2017

6.3 Medibank's 2017 financial performance

Medibank's 2017 annual financial performance is provided in the table below in addition to the average 2017 STI award achieved by ELT members as a percentage of maximum opportunity. The purpose of this table is to illustrate the relationship between the key indicators of shareholder wealth creation and STI outcomes for ELT members. As Medibank's reward framework changed significantly to reflect the privatisation that took place on 25 November 2014, financial performance and STI outcomes have not been included for financial years prior to 2015.

Measure	2015	2016	2017
Health Insurance premium revenue growth	5.1%	4.0%	1.2%
Group operating profit ¹	\$320.0m	\$505.5m	\$500.5m
Group net profit after tax (NPAT) ¹	\$291.8m	\$417.6m	\$449.5m
Dividend	5.3 cents p/s	11.0 cents p/s	12.0 cents p/s
Share price at start of financial year ²	\$2.15	\$2.01	\$2.95
Share price at end of financial year	\$2.01	\$2.95	\$2.80
Average ELT STI as a percentage of maximum opportunity	64%	59%	44%

1. Consistent with the Prospectus, the Group operating profit and Group NPAT figures for 2015 reflect pro forma financial information and is derived from the statutory consolidated income statement adjusted to reflect the half year of corporate costs as a publicly listed entity and the exclusion of the one-off costs of the initial public offering and certain significant and other items.

2. The 2015 opening share price of \$2.15 reflects the institutional offer price as part of Medibank's listing on the ASX on 25 November 2014.

6.4 2017 STI awards

The table below provides a summary of STI awards for the 2017 performance year. Please note that the STI awards for Craig Drummond, John Goodall, Mei Ramsay, Mark Rogers and Tom Exton reflect their part-year service as members of the ELT.

ELT member	Total STI achieved \$	STI cash (50%) \$	STI deferred (50%) \$	Total STI achieved as % of target	Total STI achieved as % of max opportunity
Craig Drummond	1,195,402	597,701	597,701	80%	53%
Kylie Bishop	183,750	91,875	91,875	75%	38%
John Goodall	107,759	53,879	53,880	75%	38%
David Koczkar	402,188	201,094	201,094	75%	49%
Mei Ramsay	156,377	78,188	78,189	75%	38%
Mark Rogers	127,888	63,944	63,944	75%	38%
Andrew Wilson	488,750	244,375	244,375	82%	53%
Former ELT member					
Tom Exton ¹	24,120	24,120	-	94%	47%
Paul Koppelman ²	-	-	-	-	-

1. As Tom Exton is not a permanent member of the ELT, he received 100 percent of his STI in cash.

2. As Paul Koppelman ceased in the position of Group Executive – Chief Financial Officer effective 13 September 2016, he was not eligible for an award under the 2016 STI Plan.

6.5 2015 LTI Plan outcomes

The performance period for the 2015 LTI Plan (Medibank's first LTI offer made following IPO), which commenced on 1 December 2014, concluded on 30 June 2017. The table below outlines the final outcome against each performance hurdle and associated vesting percentage for each hurdle, and the plan.

Performance hurdle	Outcome	Vesting percentage
EPS CAGR	21.9%	100%
Relative TSR	69th percentile	88%
Total 2015 LTI vesting percentage		94%

Both performance hurdles were assessed in line with the original terms of the plan and no Board discretion was used in determining the final outcome. Any performance rights under the 2015 LTI Plan that do not vest as result of the performance hurdle outcomes above, will lapse immediately.

The 2016 and 2017 LTI plans remain in restriction and will be assessed against their performance hurdles at the completion of the 2018 and 2019 financial years respectively.

7. 2017 actual remuneration

The table below represents the 2017 'actual' remuneration for Executive Leadership Team (ELT) members and includes all cash payments made in relation to 2017 in addition to deferred short-term incentive (STI) awards that vested in 2017.

Statutory remuneration disclosures prepared in accordance with the Corporations Act 2001 and Australian Accounting Standards differ to the numbers presented below, as they include (among other benefits) expensing for equity grants that are yet to realise and may never be realised. The statutory remuneration table in respect of the ELT members is presented in section 8.

ELT member	Base salary and superannuation	Cash STI for performance to 30 June 2017	Other cash payments ²	Total cash payments in relation to 2017	Deferred STI awards that vested in 2017 ³	Total 2017 actual remuneration
Craig Drummond	1,500,000	597,701	-	2,097,701	-	2,097,701
Kylie Bishop	486,231	91,875	-	578,106	382,877	960,983
John Goodall ¹	288,462	53,879	-	342,341	-	342,341
David Koczkar	828,316	201,094	-	1,029,410	658,955	1,688,365
Mei Ramsay ¹	387,917	78,188	-	466,105	-	466,105
Mark Rogers ¹	342,346	63,944	-	406,290	-	406,290
Andrew Wilson	923,539	244,375	-	1,167,914	658,955	1,826,869
Former ELT member						
Tom Exton ¹	112,043	24,120	66,596	202,759	-	202,759
Paul Koppelman ¹	145,558	-	407,020	552,578	658,955	1,211,533

1. The 'actual' remuneration detailed for Craig Drummond, John Goodall, Mei Ramsay, Mark Rogers, Tom Exton and Paul Koppelman reflect their part-year service as members of the ELT.
2. Other cash payments include to an allowance paid to Tom Exton for the period he performed the role of Acting Group Executive, Chief Financial Officer, and payments made to Paul Koppelman including a termination payment equivalent to six months in lieu of notice (\$345,000) in line with contractual obligations and payments of outstanding annual leave entitlements (\$62,020).
3. Deferred STI awards that vested in 2017 relate to the deferred STI performance rights granted in respect to the 2015 performance year. These awards vested on 6 October 2016 as per the original terms of offer.

REMUNERATION REPORT continued

For the financial year ended 30 June 2017

8. Statutory remuneration tables

8.1 Statutory remuneration table

The following table has been prepared in accordance with Section 300A of the Corporations Act 2001 and details the statutory accounting expense of all remuneration-related items for the ELT members. Note that, in contrast to the table in section 7 that details 2017 actual remuneration, the table below includes accrual amounts for equity awards being expensed throughout 2017 that are yet to, and may never be realised by the ELT member.

ELT member	Financial year	Short-term benefits				Post-employment benefits	Long-term benefits	Equity-based benefits	Other	Total remuneration \$	
		Salary \$ ²	STI \$	Other \$ ³	Non-monetary benefits \$ ⁴	Super-annuation \$	Leave \$ ⁵	Deferred STI \$ ⁶	Performance rights \$ ⁷		Termination benefits \$ ⁸
Craig Drummond	2017	1,518,552	597,701	-	23,776	37,404	36,221	-	594,769	-	2,808,423
	2016	-	-	-	-	-	-	-	-	-	-
Kylie Bishop	2017	465,099	91,875	-	17,470	24,807	15,672	-	279,626	-	894,549
	2016	416,668	118,250	-	15,976	25,192	13,626	-	389,501	-	979,213
John Goodall ¹	2017	277,593	53,879	-	10,803	17,084	6,696	-	49,879	-	415,934
	2016	-	-	-	-	-	-	-	-	-	-
David Koczkar	2017	801,569	201,094	-	24,188	25,096	34,481	-	549,251	-	1,635,679
	2016	789,359	244,000	225,000	18,736	25,192	26,445	-	712,949	-	2,041,681
Mei Ramsay ¹	2017	370,326	78,188	-	16,755	18,533	9,897	-	73,410	-	567,109
	2016	-	-	-	-	-	-	-	-	-	-
Mark Rogers ¹	2017	344,757	63,944	-	9,347	9,923	8,214	-	184,017	-	620,202
	2016	-	-	-	-	-	-	-	-	-	-
Andrew Wilson	2017	895,387	244,375	-	30,800	32,996	103,873	-	559,616	-	1,867,047
	2016	681,000	233,813	-	28,337	36,786	35,910	-	693,512	-	1,709,358
Former ELT member											
Tom Exton ¹	2017	89,961	24,120	66,596	1,915	22,081	2,851	-	-	-	207,524
	2016	-	-	-	-	-	-	-	-	-	-
Sarah Harland	2017	-	-	-	-	-	-	-	-	-	-
	2016	184,405	-	-	11,525	17,518	-	-	-	-	213,448
Paul Koppelman ¹	2017	74,043	-	-	6,322	9,427	-	77,625	56,613	345,000	569,030
	2016	651,951	155,250	-	21,935	25,191	27,604	-	637,386	-	1,519,317
George Sawvides	2017	-	-	-	-	-	-	-	-	-	-
	2016	929,161	320,313	-	51,368	30,135	21,943	320,313	1,226,500	595,173	3,494,906
Total ELT remuneration	2017	4,837,287	1,355,176	66,596	141,376	197,351	217,905	77,625	2,347,181	345,000	9,585,497
	2016	3,652,544	1,071,626	225,000	147,877	160,014	125,528	320,313	3,659,848	595,173	9,957,923

1. Statutory remuneration detailed for Craig Drummond, John Goodall, Mei Ramsay, Mark Rogers, Tom Exton and Paul Koppelman reflect their part-year service as members of the ELT.
2. Salary includes annual base salary paid on a fortnightly basis and accrued but untaken annual leave entitlements which are expected to be taken in the next 12 months.
3. Other payments in respect to Tom Exton in 2017 relate to an allowance paid to Tom Exton for the period he performed the role of Acting Group Executive, Chief Financial Officer. Other payments in respect to David Koczkar in 2016 relate to a one-off allowance of \$225,000 made to David Koczkar in recognition of his three months as Acting Chief Executive Officer in that year.
4. Non-monetary benefits may include death, total and permanent disablement insurance, salary continuance insurance, subsidised Medibank health insurance and fringe benefits that are on the same terms and conditions that are available to all employees of the Group.
5. Long-term leave comprises an accrual for long service leave and accrued but untaken annual leave entitlements which are not expected to be taken in the next 12 months.
6. Deferred STI is in relation to Paul Koppelman's deferred component of the FY16 STI award which will be paid in cash (rather than performance rights) in October 2017, in accordance with Medibank's Executive STI Plan rules.
7. Performance rights include equity-based remuneration incurred during the relevant financial year for deferred STI, and LTI. The values are based on the grant date fair value amortised on a straight-line basis over the performance period.
8. Termination payment amount for Paul Koppelman refers to a termination payment equivalent to six months in lieu of notice in line with contractual obligations. Termination payment amount for George Savvides in 2016 refers to a termination payment equivalent to six months in lieu of notice in line with contractual obligations.

8.2 Performance-related remuneration statutory table

The following table provides an analysis of the non-performance-related (fixed remuneration) and performance-related (short-term incentive and long-term incentive) components of the 2017 remuneration mix for Medibank's ELT members as detailed in the 'Statutory remuneration table'.

ELT member	Financial year	Non-performance-related	Performance-related remuneration			Total performance-related remuneration	Total
		Fixed remuneration ¹	Cash STI	Deferred STI ²	LTI ³		
Craig Drummond	2017	57.5%	21.3%	10.6%	10.5%	42.5%	100.0%
Kylie Bishop	2017	58.5%	10.3%	11.7%	19.5%	41.5%	100.0%
John Goodall	2017	75.1%	13.0%	6.5%	5.5%	24.9%	100.0%
David Koczkar	2017	54.1%	12.3%	13.6%	20.0%	45.9%	100.0%
Mei Ramsay	2017	73.3%	13.8%	6.9%	6.1%	26.7%	100.0%
Mark Rogers	2017	80.2%	10.3%	5.2%	4.4%	19.8%	100.0%
Andrew Wilson	2017	56.9%	13.1%	12.8%	17.2%	43.1%	100.0%
Former ELT member							
Tom Exton	2017	88.4%	11.6%	0.0%	0.0%	11.6%	100.0%
Paul Koppelman	2017	76.4%	0.0%	13.6%	9.9%	23.6%	100.0%

1. Fixed remuneration includes the accounting expense from all columns of the 'Statutory remuneration table' other than 'Cash STI' and 'Performance rights' for all ELT members, with the exception of Mark Rogers. The fixed remuneration percentage for Mark Rogers also includes the 2017 accounting expense of his commencement performance rights as the award is not performance-related.

2. Deferred STI includes the 2017 accounting expense of the 2016 and 2017 deferred STI components of the 'Deferred STI' and 'Performance rights' columns of the 'Statutory remuneration table'.

3. LTI includes the 2017 accounting expense of the 2015, 2016 and 2017 LTI component of the 'Performance rights' column of the 'Statutory remuneration table'.

REMUNERATION REPORT continued

For the financial year ended 30 June 2017

9. Executive Leadership Team (ELT) equity awards

9.1 ELT equity award transactions

Details of performance rights granted to ELT members during 2017, and granted in prior years which vested or were lapsed/forfeited during 2017, are set out below.

ELT member	Award type	Units granted	Grant date	Vesting and exercise date ¹	Unit price at grant \$ ²
Craig Drummond	2017 LTI performance rights	765,306	01/03/2017	01/07/2019	2.94
Kylie Bishop	2017 LTI performance rights	100,000	01/03/2017	01/07/2019	2.94
	2016 deferred STI performance rights	48,463	01/03/2017	05/10/2017	2.44
	2016 LTI performance rights	125,242	29/10/2015	01/07/2018	2.06
	2015 deferred STI performance rights	54,879	29/10/2015	06/10/2016	2.46
	2015 additional STI performance rights	93,236	29/10/2015	06/10/2016	2.15
	2015 LTI performance rights	111,882	22/05/2015	01/07/2017	2.15
John Goodall	2017 LTI performance rights	87,868	01/03/2017	01/07/2019	2.94
David Koczkar	2017 LTI performance rights	182,396	01/03/2017	01/07/2019	2.94
	2016 deferred STI performance rights	100,000	01/03/2017	05/10/2017	2.44
	2016 LTI performance rights	252,426	29/10/2015	01/07/2018	2.06
	2015 deferred STI performance rights	94,450	29/10/2015	06/10/2016	2.46
	2015 additional STI performance rights	160,465	29/10/2015	06/10/2016	2.15
	2015 LTI performance rights	192,558	22/05/2015	01/07/2017	2.15
Mei Ramsay	2017 LTI performance rights	100,854	01/03/2017	01/07/2019	2.94
Mark Rogers	2017 LTI performance rights	117,346	01/03/2017	01/07/2019	2.94
	Commencement performance rights	89,605	01/03/2017	03/01/2018	2.79
Andrew Wilson	2017 LTI performance rights	203,400	01/03/2017	01/07/2019	2.94
	2016 deferred STI performance rights	95,824	01/03/2017	05/10/2017	2.44
	2016 LTI performance rights	228,762	29/10/2015	01/07/2018	2.06
	2015 deferred STI performance rights	94,450	29/10/2015	06/10/2016	2.46
	2015 additional STI performance rights	160,465	29/10/2015	06/10/2016	2.15
	2015 LTI performance rights	192,558	22/05/2015	01/07/2017	2.15
Former ELT member					
Tom Exton	-	-	-	-	-
Paul Koppelman	2016 LTI performance rights	200,970	29/10/2015	01/07/2018	2.06
	2015 deferred STI performance rights	94,450	29/10/2015	06/10/2016	2.46
	2015 additional STI performance rights	160,465	29/10/2015	06/10/2016	2.15
	2015 LTI performance rights	192,558	22/05/2015	01/07/2017	2.15

1. The vesting and exercise date represents the earliest possible date the performance rights may vest, being the end of the performance period. The actual vesting and exercise date will be at a time and manner determined by the Board following the end of the performance period with Medibank to notify the holder at that time. Any performance rights that do not vest at this point will immediately expire.
2. The unit price at grant represents the price used to determine the number of units granted, in line with Medibank's methodology of granting equity awards at face value.
3. The fair value at grant has been based on a valuation by independent external consultants in accordance with accounting standard AASB 2 "Share Based Payments". The fair values for both the 2015, 2016 and 2017 LTI grants are used for accounting purposes only as all LTI grants are made using the face value, as outlined in section 5.4.
4. The unvested balance has been determined by multiplying the balance of STI performance rights at 30 June 2017 by the unit price at grant and the balance of LTI performance rights at 30 June 2017 by the fair value at grant.

Fair value at grant \$ ³	Vested			Lapsed			Unvested balance at 30 June 2017 ⁴	
	Units	%	\$	Units	%	\$	Units	\$
1.16	-	-	-	-	-	-	765,306	887,755
1.16	-	-	-	-	-	-	100,000	116,000
-	-	-	-	-	-	-	48,463	118,250
1.82	-	-	-	-	-	-	125,242	227,940
-	54,879	100	133,724	-	-	-	-	-
-	93,236	100	227,188	-	-	-	-	-
1.39	-	-	-	-	-	-	111,882	155,516
1.16	-	-	-	-	-	-	87,868	101,927
1.16	-	-	-	-	-	-	182,396	211,579
-	-	-	-	-	-	-	100,000	244,000
1.82	-	-	-	-	-	-	252,426	459,415
-	94,450	100	230,147	-	-	-	-	-
-	160,465	100	391,005	-	-	-	-	-
1.39	-	-	-	-	-	-	192,558	267,656
1.16	-	-	-	-	-	-	100,854	116,991
1.16	-	-	-	-	-	-	117,346	136,121
-	-	-	-	-	-	-	89,605	249,998
1.16	-	-	-	-	-	-	203,400	235,944
-	-	-	-	-	-	-	95,824	233,811
1.82	-	-	-	-	-	-	228,762	416,347
-	94,450	100	230,147	-	-	-	-	-
-	160,465	100	391,005	-	-	-	-	-
1.39	-	-	-	-	-	-	192,558	267,656
-	-	-	-	-	-	-	-	-
1.82	-	-	-	117,233	58	213,364	83,737	152,401
-	94,450	100	230,147	-	-	-	-	-
-	160,465	100	391,005	-	-	-	-	-
1.39	-	-	-	55,904	29	77,707	136,654	189,949

REMUNERATION REPORT continued

For the financial year ended 30 June 2017

9.2 ELT members' ordinary shareholdings

Details of the ordinary shareholdings of ELT members and their related parties are provided in the table below.

ELT member	Balance 1 July 2016	Shares received on vesting of deferred STI performance rights ²	Net movement of shares due to other changes ³	Balance 30 June 2017
Craig Drummond	-	-	50,000	50,000
Kylie Bishop	-	157,129	-	157,129
John Goodall	-	-	-	-
David Koczkar	-	270,429	-	270,429
Mei Ramsay	-	-	-	-
Mark Rogers	-	-	-	-
Andrew Wilson	11,719	270,429	(87,419)	194,729
Former ELT member				
Tom Exton ¹	3,835	-	-	3,835
Paul Koppelman ¹	13,650	-	-	13,650

1. For former ELT members Tom Exton and Paul Koppelman, the balance as at 30 June 2017 represents shares held as at the date they ceased being a Key Management Personnel (KMP).

2. Shares received on vesting of deferred STI performance rights include the additional Medibank shares credited to Kylie Bishop, David Koczkar and Andrew Wilson upon the vesting of the 2015 deferred STI and 2015 additional STI performance rights as a benefit equivalent to any dividends paid during the deferral period. For further information, please refer to section 5.3.2.

3. Net movement of shares relates to acquisition and disposal transactions by the ELT member and their related parties during the year.

10. Non-executive director remuneration and framework

Non-executive director fees are determined by the Board and reflect the role, market benchmarks and the objective of the Company to attract highly skilled and experienced independent non-executive directors. All non-executive directors are required to hold shares in the Company to align with shareholder interests.

10.1 Non-executive director remuneration

Component	Delivered	Description
Base fee	Cash and superannuation	The base fee represents remuneration for service on the Medibank Board. The base fee for the Chairman represents the entire remuneration for that role.
Committee fees	Cash and superannuation	Committee fees represent remuneration for chairing, or membership of, Board committees.

10.1.1 Non-executive director Fee Cap

Under Medibank's Constitution, the total fees paid in any financial year to all non-executive directors for their services (excluding, for these purposes, the salary of any executive director) must not exceed, in aggregate, the amount fixed in 2014 at \$2 million per annum (Fee Cap).

10.1.2 2017 non-executive director remuneration

Under Medibank's Constitution, the Board is responsible for determining the total amount paid to each non-executive director as remuneration for their services. In making this determination, the Board has taken into account the level of work required for the role and has regard to the median remuneration paid to non-executive directors of companies positioned within the ASX 11-100 (excluding mining and energy companies).

10.1.3 2018 non-executive director remuneration

From 1 July 2017, Medibank will adjust its Board committee structure to have stand-alone Board committees for both Audit and Risk Management. This was a recommendation made by APRA to ensure Medibank had a Board committee to focus solely on risk-management. This change was taken into consideration when non-executive director fees were reviewed for 2018.

As in 2017, the Board considered it appropriate to position the non-executive directors at the median of the benchmark group, being the ASX 11-100 (excluding mining and energy companies). Following the benchmarking exercise the Board chose to:

- Make no changes to the annual base fee for the Chairman and non-executive directors;
- Align all committee chairman fees at \$35,000; and
- Align all committee member fees at \$17,000.

Non-executive director fees applicable throughout 2017 and 2018 are set out in the tables below:

Position	Fee per annum from 1 July 2016 \$	Fee per annum from 1 July 2017 \$
Chairman	425,000	425,000
Non-executive directors	155,000	155,000
Committee chairman fees		
Audit and Risk Management Committee	35,000	n/a
Audit Committee	n/a	35,000
Risk Management Committee	n/a	35,000
People and Remuneration Committee	30,000	35,000
Investment and Capital Committee	30,000	35,000
Committee membership fees		
Audit and Risk Management Committee	17,000	n/a
Audit Committee	n/a	17,000
Risk Management Committee	n/a	17,000
People and Remuneration Committee	15,000	17,000
Investment and Capital Committee	15,000	17,000

REMUNERATION REPORT continued

For the financial year ended 30 June 2017

10.2 Non-executive director superannuation

Medibank meets its obligations under the Superannuation Guarantee legislation by paying superannuation contributions in respect of non-executive directors to their nominated complying superannuation funds up to the concessional contribution limits, as prescribed by current income tax law. These superannuation contributions for non-executive directors are drawn from the overall fees paid to non-executive directors.

10.3 Shareholding policy for non-executive directors

Medibank has a minimum shareholding policy that requires non-executive directors to acquire shares with a value equal to one year's base fee after tax over a period of five years. Non-executive directors do not participate in, or receive, any performance-based remuneration as part of their role and do not participate in any equity plans that operate within the Group.

As at 30 June 2017, all non-executive directors have either met the minimum shareholding requirement, or are on track to do so, within the five-year period. Further details of current non-executive director shareholdings and their progress towards meeting the minimum shareholding requirement are provided in section 12.

11. Non-executive remuneration statutory table

Non-executive director	Financial year	Short-term benefits		Post-employment benefits	Total \$
		Cash salary and fees \$	Non-monetary ¹ \$	Superannuation \$	
Elizabeth Alexander	2017	406,939	-	19,696	426,635
	2016	383,596	-	19,481	403,077
Anna Bligh	2017	169,600	2,732	16,112	188,444
	2016	150,924	2,295	14,338	167,557
David Fagan	2017	169,600	2,303	16,112	188,015
	2016	150,924	2,224	14,338	167,486
Cherrell Hirst	2017	171,433	861	16,286	188,580
	2016	155,525	852	14,775	171,152
Peter Hodgett	2017	185,184	2,515	17,592	205,291
	2016	167,488	2,371	15,912	185,771
Linda Bardo Nicholls	2017	169,600	2,796	16,112	188,508
	2016	151,844	2,882	14,425	169,151
Christine O'Reilly	2017	174,183	2,232	16,547	192,962
	2016	161,047	488	15,299	176,834
Mike Wilkins	2017	17,734	-	1,685	19,419
	2016	-	-	-	-
Total non-executive director remuneration	2017	1,464,273	13,439	120,142	1,597,854
	2016	1,321,348	11,112	108,568	1,441,028

1. Non-monetary benefits may include death, total and permanent disablement insurance, salary continuance insurance, subsidised Medibank health insurance and fringe benefits that are on the same terms and conditions that are available to all employees of the Group.

12. Non-executive director ordinary shareholdings

Non-executive director	Balance 1 July 2016	Acquired during the year	Balance 30 June 2017	Minimum shareholding requirement \$ ¹	Value of eligible shareholdings as at 30 June 2017 \$ ²	Minimum shareholding requirement deadline
Elizabeth Alexander	54,786	70,000	124,786	212,500	349,401	25 November 2019
Anna Bligh	3,835	11,811	15,646	77,500	43,809	25 November 2019
David Fagan	30,016	-	30,016	77,500	84,045	25 November 2019
Cherrell Hirst	7,150	8,771	15,921	77,500	44,579	25 November 2019
Peter Hodgett	67,800	-	67,800	77,500	189,840	25 November 2019
Linda Bardo Nicholls	27,150	-	27,150	77,500	76,020	25 November 2019
Christine O'Reilly	52,325	17,605	69,930	77,500	195,804	25 November 2019
Mike Wilkins	-	-	-	77,500	-	25 May 2022

1. Minimum shareholding requirement based on annual non-executive director base fees for 2017 and an assumed tax rate of 50 percent.

2. Value has been calculated with reference to the total number of eligible shares held by each non-executive director, multiplied by the closing price of Medibank's shares on 30 June 2017 (\$2.80).

REMUNERATION REPORT continued

For the financial year ended 30 June 2017

13. Medibank's comparator groups

Detailed below are a list of companies that have either been added or excluded from Medibank's comparator groups for the period 2015-2018. As explained in sections 5.2, 5.4 and 11.1 of this report, these comparator groups have been used for the purposes of benchmarking executive and non-executive director remuneration and for the assessment of Medibank's relative TSR performance under its LTI Plan.

The companies listed below have either been added or excluded from Medibank's comparator groups in line with Board's intent on benchmarking remuneration and comparing performance against organisations of similar size and from similar industries.

2015 comparator group

Excluded companies	Included insurance companies ¹
Alumina Limited	Suncorp Group Limited
BlueScope Steel Limited	AMP Limited
Fletcher Building Limited	Insurance Australia Group Limited
Iluka Resources Limited	
James Hardie Industries	
Sims Metal Management Limited	
Beach Energy Limited	

1. The insurance companies listed above were only included in the 2015 comparator group for the purposes of benchmarking executive and non-executive remuneration.

Comparator group from 2016 onwards

Excluded companies
Rio Tinto Limited
Origin Energy Limited
Oil Search Limited
Newcrest Mining Limited
Caltex Australia Limited
Santos Limited
Fortescue Metals Group Limited
Alumina Limited
BlueScope Steel Limited
Worley Parsons Limited ¹
Sims Metal Management Limited ¹
Iluka Resources Limited
South32 Limited ²
Woodside Petroleum Limited ²
Evolution Mining Limited ³
Northern Star Resources Limited ³
Oz Minerals Limited ³

1. Worley Parsons Limited and Sims Metal Management Limited were only excluded from the 2016 comparator group.

2. South32 Limited and Woodside Petroleum Limited were only excluded from the 2017 and 2018 comparator groups.

3. Evolution Mining Limited, Northern Star Resources Limited and Oz Minerals Limited were only excluded from the 2018 comparator group.

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	3. Insurance underwriting result	8. Financial risk management	13. Intangible assets	16. Group structure
	4. Deferred acquisition costs	9. Working capital	14. Provisions and employee entitlements	17. Share-based payments
	5. Unearned premium liability	10. Contributed equity		18. Key management personnel remuneration
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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 30 June 2017

	Note	2017 \$m	2016 \$m
Revenue			
Health Insurance premium revenue	3(a)	6,244.9	6,172.5
Medibank Health revenue		552.1	569.3
		6,797.0	6,741.8
Other income		11.8	10.5
Expenses			
Claims expense		(5,154.8)	(5,130.4)
Medical services expense		(374.5)	(409.1)
Employee benefits expense	14(a)(ii)	(374.3)	(326.4)
Office and administration expense		(78.4)	(83.4)
Marketing expense		(105.1)	(101.6)
Information technology expense		(82.0)	(54.7)
Professional service expense		(28.5)	(47.1)
Lease expense		(29.9)	(32.6)
Depreciation and amortisation expense		(85.5)	(63.8)
Other expenses		(6.4)	(16.2)
		(6,319.4)	(6,265.3)
Profit before net investment income and income tax		489.4	487.0
Net investment income	7(a)	139.3	59.3
Profit for the year before income tax		628.7	546.3
Income tax expense	15(a)	(179.2)	(128.7)
Profit for the year		449.5	417.6
Other comprehensive income, net of tax			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations	11	-	(0.6)
<i>Items that will not be reclassified to profit or loss</i>			
Revaluation of land and buildings held at fair value	11	2.1	-
Actuarial gain/(loss) on retirement benefit obligation	11	0.4	-
		2.5	(0.6)
Total comprehensive income for the year		452.0	417.0
Earnings per share for profit attributable to ordinary equity holders of the Company		Cents	Cents
Basic earnings per share	6(b)	16.3	15.2
Diluted earnings per share	6(b)	16.3	15.2

The above statement should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Note	2017 \$m	2016 \$m
Current assets			
Cash and cash equivalents		594.6	438.7
Trade and other receivables	9(b)	317.0	313.1
Financial assets at fair value through profit or loss	7(b)	2,038.1	2,015.8
Deferred acquisition costs	4	36.6	31.1
Other assets		14.1	13.8
Total current assets		3,000.4	2,812.5
Non-current assets			
Property, plant and equipment	12	87.3	93.3
Intangible assets	13	321.1	312.9
Deferred acquisition costs	4	50.9	45.0
Other assets		2.8	2.5
Total non-current assets		462.1	453.7
Total assets		3,462.5	3,266.2
Current liabilities			
Trade and other payables	9(c)	334.8	333.9
Claims liabilities	3(b)	388.4	396.3
Unearned premium liability	5	685.7	664.0
Tax liability		85.5	63.8
Provisions and employee entitlements	14	70.3	60.5
Total current liabilities		1,564.7	1,518.5
Non-current liabilities			
Trade and other payables	9(c)	32.9	34.7
Claims liabilities	3(b)	16.0	21.3
Unearned premium liability	5	73.2	65.3
Deferred tax liabilities	15(c)	27.4	11.9
Provisions and employee entitlements	14	28.5	35.8
Total non-current liabilities		178.0	169.0
Total liabilities		1,742.7	1,687.5
Net assets		1,719.8	1,578.7
Equity			
Contributed equity	10	85.0	85.0
Reserves	11	24.4	23.4
Retained earnings		1,610.4	1,470.3
Total equity		1,719.8	1,578.7

The above statement should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 30 June 2017

	Contributed equity \$m	Reserves \$m	Retained earnings \$m	Total equity \$m
Balance at 1 July 2015	85.0	21.1	1,335.9	1,442.0
Profit for the year	-	-	417.6	417.6
Other comprehensive income	-	(0.6)	-	(0.6)
Total comprehensive income for the year	-	(0.6)	417.6	417.0
Transfers upon sale of properties (Note 11)	-	(0.7)	0.5	(0.2)
Transactions with owners in their capacity as owners:				
Dividends paid	-	-	(283.7)	(283.7)
Share-based payment transactions	-	3.6	-	3.6
Balance at 30 June 2016	85.0	23.4	1,470.3	1,578.7
Profit for the year	-	-	449.5	449.5
Other comprehensive income	-	2.1	0.4	2.5
Total comprehensive income for the year	-	2.1	449.9	452.0
Transactions with owners in their capacity as owners:				
Dividends paid	-	-	(309.8)	(309.8)
Acquisition and settlement of share-based payment, net of tax	-	(3.4)	-	(3.4)
Share-based payment transactions	-	2.3	-	2.3
Balance at 30 June 2017	85.0	24.4	1,610.4	1,719.8

The above statement should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 30 June 2017

	Note	2017 \$m	2016 \$m
Cash flows from operating activities			
Premium receipts		6,278.8	6,159.5
Medibank Health receipts		602.1	612.7
Other receipts		6.0	6.3
Payments for claims and levies		(5,175.9)	(5,141.4)
Payments to suppliers and employees		(1,174.7)	(1,199.4)
Income taxes paid		(142.9)	(85.4)
Net cash inflow from operating activities	9(d)	393.4	352.3
Cash flows from investing activities			
Interest received		38.8	42.2
Investment expenses		(4.1)	(3.7)
Proceeds from sale of financial assets		745.1	1,011.4
Purchase of financial assets		(658.0)	(1,040.1)
Proceeds from sale of businesses		2.9	23.3
Proceeds from sale of land and buildings		-	6.5
Purchase of plant and equipment		(5.5)	(2.6)
Purchase of intangible assets		(43.3)	(75.6)
Net cash outflow from investing activities		75.9	(38.6)
Cash flows from financing activities			
Purchase of shares to settle share-based payment		(3.6)	-
Dividends paid		(309.8)	(283.7)
Net cash outflow from financing activities		(313.4)	(283.7)
Net increase/(decrease) in cash and cash equivalents		155.9	30.0
Cash and cash equivalents at beginning of year		438.7	408.7
Cash and cash equivalents at end of year		594.6	438.7

The above statement should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 June 2017

SECTION 1: BASIS OF PREPARATION

Overview

This section outlines the basis on which the Group's financial statements are prepared. Specific accounting policies are described in the note to which they relate.

Note 1: Basis of preparation

(a) Corporate information

Medibank Private Limited (Medibank or the Company) is a for-profit company incorporated in Australia, whose shares are publicly traded on the Australian Securities Exchange (ASX).

The financial statements of Medibank for the financial year ended 30 June 2017 were authorised for issue in accordance with a resolution of the directors on 25 August 2017. The directors have the power to amend and reissue the financial statements.

(b) Basis of preparation

The financial statements are general purpose financial statements which:

- are for the consolidated entity ("the Group") consisting of Medibank ("parent entity") and its subsidiaries. Refer to Note 16(a) for full Group Structure;
- have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB), International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the Corporations Act 2001;
- have been prepared under the historical cost convention, with the exception of financial assets measured at fair value through profit or loss, land and buildings which are measured at fair value, and claims liabilities which are measured at the present value of expected future payments;
- are presented in Australian dollars, which is Medibank's functional and presentation currency;
- have been rounded off in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 to the nearest hundred thousand dollars unless otherwise stated;
- adopt all new and amended accounting standards that are mandatory for 30 June 2017 reporting periods. Refer to Note 22(a) for further details;
- do not apply any pronouncements before their operative date. Refer to Note 22(b) for details of new standards and interpretations which have been issued but are not effective for 30 June 2017 reporting periods;
- have been updated to reflect the change in name of the Medibank Health segment (previously Complementary Services); and
- include, where necessary, updates to prior year comparatives for changes in classification of amounts in the current reporting period.

(c) Critical accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in the following notes:

- Note 3: Insurance underwriting result
- Note 4: Deferred acquisition costs
- Note 7: Investment portfolio
- Note 13: Intangible assets
- Note 14: Provisions and employee entitlements

SECTION 2: OPERATING PERFORMANCE

Overview

This section explains the operating results of the Group for the year, and provides insights into the Group's result by reference to key areas, including:

- results by operating segment;
- insurance underwriting result; and
- shareholder returns.

Note 2: Segment information

Segment Reporting Accounting Policy

Operating segments are identified based on the separate financial information that is regularly reviewed by the Chief Operating Decision Maker (CODM). The term CODM refers to the function performed by the Chief Executive Officer (CEO) in assessing performance and determining the allocation of resources across the Group.

(a) Description of segments

Segment information is reported on the same basis as the Group's internal management reporting structure, which determines how the Group is organised and managed at the reporting date.

For the financial year ended 30 June 2017, the Group was organised for internal management reporting purposes into two reportable segments, Health Insurance and Medibank Health.

Health Insurance

Offers private health insurance products including hospital cover and ancillary cover, as stand-alone products or packaged products that combine the two. Hospital cover provides members with health cover for hospital treatments, whereas ancillary cover provides members with health cover for healthcare services such as dental, optical and physiotherapy. The segment also offers health insurance products to overseas visitors and overseas students.

Private Health Insurance Premium Revenue Recognition Accounting Policy

Premium revenue is recognised on a straight line basis over the period of insurance cover and is measured at the fair value of the consideration received or receivable.

Medibank Health

Derives its revenue from a range of activities including contracting with government and corporate customers to provide health management services, as well as providing a range of telehealth services in Australia. In addition, the Group distributes travel, life and pet insurance products on behalf of other insurers as part of a broader strategy to retain members and leverage its distribution network.

Medibank Health Revenue Recognition Accounting Policy

Medibank Health revenue is recognised in the period in which the service is provided, having regard to the proportion of completion of the service at the end of each reporting period. The Group recognises as a liability any amounts received for which it has not provided the service at reporting date.

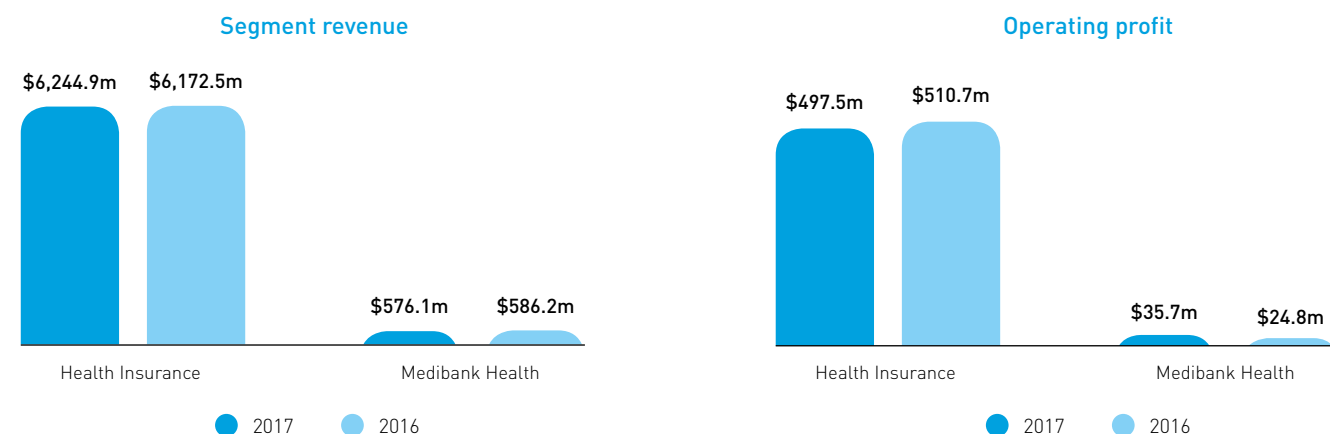
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

30 June 2017

Note 2: Segment information continued

(b) Segment information provided to the Chief Executive Officer

The CEO measures the performance of the Group's reportable segments based on the operating profit of those segments. The segment information provided to the CEO for the year ended 30 June 2017 is as follows:



	Health Insurance \$m	Medibank Health \$m	Total \$m
Year ended 30 June 2017			
Revenues			
Total segment revenue	6,244.9	576.1	6,821.0
Inter-segment revenue	-	(24.0)	(24.0)
Revenue from external customers	6,244.9	552.1	6,797.0
Operating profit	497.5	35.7	533.2
<i>Items included in segment operating profit:</i>			
Depreciation and amortisation	(75.5)	(1.9)	(77.4)
Year ended 30 June 2016			
Revenues			
Total segment revenue	6,172.5	586.2	6,758.7
Inter-segment revenue	-	(16.9)	(16.9)
Revenue from external customers	6,172.5	569.3	6,741.8
Operating profit	510.7	24.8	535.5
<i>Items included in segment operating profit:</i>			
Depreciation and amortisation	(51.8)	(4.1)	(55.9)

(c) Other segment information

(i) Segment revenue

Segment revenue from external customers reported to the CEO is measured in a manner consistent with that in the Group's consolidated statement of comprehensive income. Transactions between segments are carried out at arm's length basis and are eliminated on consolidation. The Group is not reliant on any one major customer.

(ii) Segment operating profit or loss

The CEO measures the performance of the Group's reportable segments based on the operating profit of those segments.

A reconciliation of the operating profit to the profit for the year before income tax of the Group is as follows:

	Note	2017 \$m	2016 \$m
Total segment operating profit		533.2	535.5
Unallocated to operating segments:			
Corporate operating expenses		(32.7)	(30.0)
Group operating profit		500.5	505.5
Net investment income	7(a)	139.3	59.3
Acquisition intangible amortisation		(7.0)	(7.6)
Other income/(expenses)		(1.3)	3.1
ACCC legal costs		(2.8)	-
Unearned premium liability adjustment		-	(14.0)
Profit for the year before income tax		628.7	546.3

(iii) Other items

Segment operating profit excludes the following:

- Depreciation and amortisation and operating expenses of the Group's corporate function of \$32.7 million (2016: \$30.0 million), which are not allocated to segments; and
- Other income/(expenses) of \$1.3 million (2016: \$3.1 million) which do not relate to the trading activities of the Group's segments comprising primarily sublease rent and sale of businesses.

The 2016 period had an unearned premium liability adjustment which related to a system migration.

- Net investment income, which comprises:
 - interest, distribution and dividend income and related investment management expenses (refer to Note 7(a)), as this arises from investments which are managed by a central treasury function; and
 - net gains and losses on disposals of and fair value movements on financial assets and liabilities (refer to Note 7(a)), as they are not indicative of the Group's long-term performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

30 June 2017

Note 2: Segment information continued

(iv) Segment assets and segment liabilities

No information regarding segment assets and segment liabilities has been disclosed, as these amounts are not reported to the CEO for the purpose of making strategic decisions.

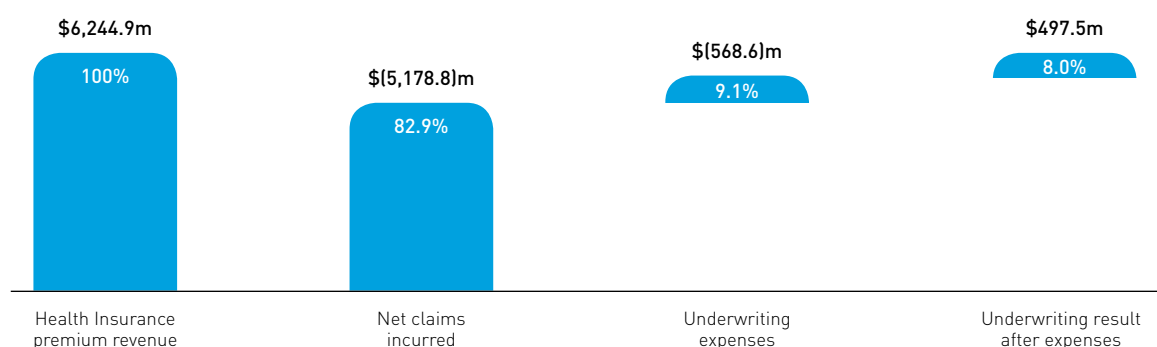
(v) Geographic information

Segment revenue based on the geographical location of customers has not been disclosed, as the Group derives substantially all of its revenues from its Australian operations.

Note 3: Insurance underwriting result

This note presents the Group's insurance underwriting result and provides information on the Group's claims liabilities, which comprise the outstanding claims liability and the provision for bonus entitlements.

2017 underwriting result after expenses



Insurance Contracts Accounting Policy

An insurance contract arises when the Group accepts significant insurance risk from another party by agreeing to compensate them from the adverse effects of a specified uncertain future event. The significance of insurance risk depends on both the probability and magnitude of an insurance event.

Once insurance cover has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk significantly reduces during the period. With the exception of travel, life and pet insurance, where the Group does not act as an underwriter, all other types of insurance cover are insurance contracts.

(a) Insurance underwriting result

	Note	2017 \$m	2016 \$m
Health Insurance premium revenue		6,244.9	6,172.5
Claims expense			
Claims incurred	(i)	(5,228.7)	(5,161.0)
State levies		(48.2)	(48.3)
Net Risk Equalisation Special Account rebates		97.9	63.5
Net claims incurred excluding claims handling costs on outstanding claims liabilities		(5,179.0)	(5,145.8)
Claims handling costs on outstanding claims liabilities		0.2	(1.5)
Net claims incurred		(5,178.8)	(5,147.3)
Underwriting expenses		(568.6)	(514.5)
Underwriting result after expenses		497.5	510.7

(i) Prior to elimination of transactions with the Group's other operating segments of \$24.0 million (2016: \$16.9 million).

Health Insurance Premium Revenue Recognition Accounting Policy

Premium revenue is recognised in the statement of comprehensive income when the amount can be reliably measured and it is probable that future economic benefits will flow to the entity. Premium revenue is recognised on a straight line basis from the commencement date of the current period of insurance cover. Premium revenue is measured at the fair value of the consideration received or receivable.

Premium revenue includes the movement in the premiums in arrears which is assessed based on the likelihood of collection established from past experience. Premium revenue relating to future financial periods is classified as an unearned premium liability in the consolidated statement of financial position.

The Australian Government provides a rebate for premiums paid for eligible resident private health insurance policyholders. Eligible policyholders can elect to receive this entitlement by paying the net amount of the premium, with the rebate being paid directly by the government to the Group. This rebate is recognised within premium revenue in the statement of comprehensive income. Rebates due from the government but not received at balance date are recognised as receivables.

Net Risk Equalisation Special Account Levies and Rebates Accounting Policy

Under legislation, all private health insurers must participate in the Risk Equalisation Special Account in which all private health insurers share the cost of the eligible claims of members aged 55 years and over, and claims meeting the high cost claim criteria.

The Australian Prudential Regulation Authority (APRA) determines the amount payable to or receivable from the Risk Equalisation Special Account after the end of each quarter. Provisions for estimated amounts payable or receivable are provided for periods where determinations have not yet been made. This includes an estimate of risk equalisation for unrepresented and outstanding claims.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

30 June 2017

Note 3: Insurance underwriting result continued

(b) Gross claims liability

	Note	2017 \$m	2016 \$m
Current			
Outstanding claims liability – central estimate	(i,ii)	336.2	339.9
Risk margin	(i,iii)	26.1	26.6
Claims handling costs	(iv)	8.4	8.5
		370.7	375.0
Claims liability – bonus provision	(v)	17.7	21.3
Gross claims liability		388.4	396.3
Non-current			
Outstanding claims liability – central estimate	(i,ii)	1.5	5.3
Risk margin	(iii)	0.1	0.4
Claims handling costs	(iv)	-	0.1
		1.6	5.8
Claims liability – bonus provision	(v)	14.4	15.5
Gross claims liability		16.0	21.3

Claims Liabilities and Provisions Accounting Policy

The liability for outstanding claims provides for claims received but not assessed and claims incurred but not received. It is based on an actuarial assessment that considers historical patterns of claim incidence and processing. It is measured as the central estimate of the present value of expected future payments arising from claims incurred at the end of each reporting period under insurance cover issued by Medibank, plus a risk margin reflecting the inherent uncertainty in the central estimate. The expected future payments are discounted to present value using a risk-free rate.

The liability also allows for an estimate of claims handling costs, which include internal and external costs incurred from the negotiation and settlement of claims. Claims handling costs comprise all direct expenses of the claims department and general administrative costs directly attributable to the claims function.

Key estimate

The outstanding claims estimate is based on the hospital, ancillary and overseas valuation classes. Estimated outstanding claims for ancillary are calculated using statistical methods adopted for all service months. Estimated outstanding claims for hospital and overseas are calculated using statistical methods adopted for all services months but with service levels for the most recent service month (hospital) or two services months (overseas) being based on the latest forecast. Adjustments are then applied to reflect any unusual or abnormal events that may affect the estimate of service levels such as major variability to claims processing volumes. The process for establishing the outstanding claims provision involves consultation with internal actuaries, claims managers and other senior management. The process includes monthly internal claims review meetings attended by senior management and the Chief Actuary. The critical assumption in determining the outstanding claims liability is the extent to which claim incidence and development patterns are consistent with past experience.

(i) Outstanding claims liability – central estimate	<p>The outstanding claims liability comprises the central estimate and a risk margin (refer to Note 3 (b)(iii)). The central estimate is an estimate of the level of claims liability.</p> <p>Key estimate</p> <p>The central estimate is based on statistical analysis of historical experience which assumes an underlying pattern of claims development and payment. The final selected central estimate is based on a judgemental consideration of this analysis and other qualitative information. The central estimate excludes the impact of the Risk Equalisation Special Account. A separate estimate is made of levies payable to and recoveries from the account.</p>
(ii) Discounting	<p>The outstanding claims liability central estimate is discounted to present value using a risk-free rate of 1.71 percent per annum which equates to a reduction in the central estimate of \$0.8 million (2016: 1.96 percent, \$1.0 million).</p>
(iii) Risk margin	<p>An overall risk margin considers the uncertainty surrounding the outstanding claims liability. The risk margin applied to the Group's outstanding claims central estimate (net of risk equalisation) at 30 June 2017 is 7.7 percent (2016: 7.7 percent).</p> <p>Key estimate</p> <p>The risk margin is based on an analysis of past experience, including comparing the volatility of past payments to the central estimate. The risk margin has been estimated to equate to the Group's objective of achieving a probability of adequacy of at least 95 percent (2016: 95 percent).</p>
(iv) Claims handling costs	<p>The allowance for claims handling costs at 30 June 2017 is 2.5 percent of the outstanding claims liability (2016: 2.5 percent).</p>
(v) Claims liabilities – bonus provision	<p>Certain private health insurance products (Package Bonus, Ultra Bonus and Membership Bonus) include benefits that carry forward. Package Bonus carries forward unused benefit entitlements in a calendar year for five calendar years. Membership Bonus carries forward unused benefit entitlements in a calendar year for 10 calendar years. Ultra Bonus carries forward unused benefit entitlements without limit.</p> <p>The Group's claims liabilities include a provision to cover expected future utilisation of these benefit entitlements of the current membership.</p> <p>Key estimate</p> <p>The bonus provision includes the total entitlement available to members under the terms of the relevant insurance policies, less any amounts utilised, with a probability of utilisation based on past experience and current claiming patterns applied. The true cost of these entitlements cannot be known with certainty until any unclaimed entitlements are processed.</p>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

30 June 2017

Note 3: Insurance underwriting result continued

(c) Claims incurred

Information regarding liquidity risk is set out in Note 9(e). Interest rate risk is not applicable as claims liabilities are non-interest bearing.

Current year claims relate to risks borne in the current financial year. The prior year amount represents the difference between the claims liability at the end of the previous financial year and the claims cost recognised in the current financial year for claims incurred in prior financial years, based on claims payments made during the year.

Claims Expense Accounting Policy

Claims expense consists of amounts paid and payable to hospital, medical and ancillary providers which consists of claims paid and payable, changes in claims liabilities, change in amounts receivable from and payable to the Risk Equalisation Special Account, applicable state levies and costs incurred in providing dental, optical and health management services.

(d) Reconciliation of movement in claims liabilities

	2017 \$m	2016 \$m
Balance at 1 July	417.6	410.6
Claims incurred during the year	5,229.1	5,178.4
Claims settled during the year	(5,218.0)	(5,137.1)
Amount over provided on central estimate	(23.6)	(36.7)
Risk margin	(0.7)	0.8
Claims handling costs	(0.2)	1.5
Movement in discount	0.2	0.1
Balance at 30 June	404.4	417.6

Note: Movement includes both current and non-current. Claims incurred and claims settled exclude levies and rebates.

(e) Impact of changes in key variables on the outstanding claims provision

The central estimate, discount rate, risk margin and weighted average term to settlement are the key outstanding claims variables. A 10 percent increase/decrease in the central estimate would result in a \$23.6 million decrease/increase to profit after tax (2016: \$24.2 million) and a \$23.6 million decrease/increase to equity (2016: \$24.2 million). A 1 percent movement in other key outstanding claims variables, including discount rate, risk margin and weighted average term to settlement, would result in an insignificant decrease/increase to profit after tax and equity.

(f) Insurance risk management

The Group provides private health insurance products for Australian residents, private health insurance for overseas students studying in Australia and overseas visitors to Australia. These services are written as two types of contracts: hospital and/or ancillary cover.

The table below sets out the key variables upon which the cash flows of the insurance contracts are dependent.

Type of contract	Detail of contract workings	Nature of claims	Key variables that affect the timing and uncertainty of future cash flows
Hospital cover	Defined benefits paid for hospital treatment, including accommodation, medical and prostheses costs.	Hospital benefits defined by the insurance contract or relevant deed.	Claims incidence and claims inflation.
Ancillary cover	Defined benefits paid for ancillary treatment, such as dental, optical and physiotherapy services.	Ancillary benefits defined by the insurance contract or relevant deed.	Claims incidence and claims inflation.

Insurance risks and the holding of capital in excess of prudential requirements are managed through the use of claims management procedures, close monitoring of experience, the ability to vary premium rates and risk equalisation.

Mechanisms to manage risk

Claims management	Strict claims management ensures the timely and correct payment of claims in accordance with policy conditions and provider contracts. Claims are monitored monthly to track the experience of the portfolios.
Experience monitoring	Monthly financial and operational results, including portfolio profitability and prudential capital requirements, are reported to management committees and the Board. Results are also monitored against industry for insurance risks and experience trends as published by the regulator, APRA.
Prudential capital requirements	All private health insurers must comply with prudential capital requirements to provide a buffer against certain levels of adverse experience. The Board has a target level of capital which exceeds the regulatory requirement.
Ability to vary premium rates	The Group can vary future premium rates subject to the approval of the Minister for Health.
Risk equalisation	Private health insurance legislation requires resident private health insurance contracts to meet community rating requirements. This prohibits discrimination between people on the basis of their health status, gender, race, sexual orientation, religious belief, age (except as allowed under Lifetime Health Cover provisions), increased need for treatment or claims history. To support these restrictions, all private health insurers must participate in the Risk Equalisation Special Account.
Concentration of health risk	The Group has health insurance contracts covering hospital and ancillary cover, and private health insurance for overseas students and visitors to Australia. There is no significant exposure to concentrations of risk because contracts cover a large volume of people across Australia.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

30 June 2017

Note 4: Deferred acquisition costs

Movements in the deferred acquisition costs are as follows:

	2017 \$m	2016 \$m
Balance at beginning of year	76.1	67.7
Costs deferred during the year	45.3	33.6
Amortisation expense	(33.9)	(25.2)
	87.5	76.1

Note: Movement includes both current and non-current.

Deferred Acquisition Costs Accounting Policy

Acquisition costs incurred in obtaining health insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the consolidated statement of comprehensive income in subsequent reporting periods.

Deferred acquisition costs are amortised systematically over the average expected retention period of the insurance contracts to which they relate, in accordance with the expected pattern of the incidence of risk under the insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding actual and expected premium revenue. The Group amortises these costs on a straight-line basis over a period of 4 years (2016: 4 years). This is subject to the results of liability adequacy testing (refer to Note 5). The appropriateness of the average expected retention period of the insurance contracts is an accounting policy judgement and is reassessed annually on the basis of historical lapse rates for members who are subject to these acquisition costs.

Key judgement and estimate

The amortisation period of 4 years has been determined based on the average expected retention period of members. The actual retention period of a member can be longer or shorter than 4 years. The straight line method systematically follows the initial period of customer tenure with some customers remaining with Medibank over a longer period of time. The Group maintains data on the retention period of all members, and performs a retention period analysis of those who are subject to these acquisition costs.

Note 5: Unearned premium liability

Movement in the unearned premium liability is as follows:

	2017 \$m	2016 \$m
Balance at 1 July	729.3	725.6
Deferral of premium on contracts written during the year	693.6	672.1
Earnings of premiums deferred in prior years	(664.0)	(668.4)
Balance at 30 June	758.9	729.3

Note: Movement includes both current and non-current.

Liability adequacy testing did not result in the identification of any deficiency as at 30 June 2017 and 2016.

Unearned Premium Liability Accounting Policy

The proportion of premium received that has not been earned at the end of each reporting period is recognised in the consolidated statement of financial position as unearned premium liability. The liability for unearned premiums is non-interest bearing and is released to the statement of comprehensive income as revenue in accordance with Note 3(a) over the term of the insurance cover, which for the purpose of measuring the unearned premium liability, is between the attachment date and the date the premium has been paid up to.

Unexpired Risk Liability Accounting Policy

A liability adequacy test is required to be performed in respect of the unearned premium liability (premiums in advance) and insurance contracts renewable before the next pricing review (constructive obligation). The purpose of the test is to determine whether the insurance liability, net of related deferred acquisition costs, is adequate to cover the present value of expected cash outflows relating to future claims arising from rights and obligations under current insurance coverage. An additional risk margin is included in the test to reflect the inherent uncertainty in the central estimate. The liability adequacy test is performed at the level of a portfolio of contracts that are subject to broadly similar risks and that are managed together as a single portfolio.

If the present value of the expected future cash outflows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability less related intangible assets and related deferred acquisition costs, the unearned premium liability is deemed to be deficient, with the entire deficiency being recorded immediately in the statement of comprehensive income. The deficiency is recognised first by writing down any related intangible assets and then related deferred acquisition costs, with any excess being recorded in the consolidated statement of financial position as an unexpired risk liability.

Deferred acquisition costs which are not included in this test are separately assessed for recoverability and are amortised in accordance with the Group's accounting policy set out in Note 4.

Note 6: Shareholder returns

(a) Dividends

(i) Dividends paid or payable

	Cents per fully paid share	\$m	Payment date
2017			
2016 final fully franked dividend	6.00	165.2	28 September 2016
2017 interim fully franked dividend	5.25	144.6	29 March 2017
2016			
2015 final fully franked dividend	5.30	146.0	28 September 2015
2016 interim fully franked dividend	5.00	137.7	29 March 2016

The dividend per share for the current financial year has been calculated based on the number of shares described in Note 10(a).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

30 June 2017

Note 6: Shareholder returns continued

(a) Dividends continued

(ii) Dividends not recognised at the end of the reporting period

On 25 August 2017, the directors proposed a final fully-franked dividend for the year ended 30 June 2017 of 6.75 cents per share. The dividend is expected to be paid on 28 September 2017 and has not been provided for as at 30 June 2017.

(iii) Franking account

Franking credits available at 30 June 2017 for subsequent reporting periods based on a tax rate of 30 percent are \$43.2 million (2016: \$28.1 million).

Dividends Accounting Policy

A liability is recorded for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

(b) Earnings per share

	2017	2016
Profit for the year attributable to ordinary equity holders of the Company (\$m)	449.5	417.6
Weighted average number of ordinary shares used in calculating basic and diluted earnings per share	2,754,003,240	2,754,003,240

Basic Earnings Per Share Accounting Policy

Basic earnings per share (EPS) is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the reporting period, adjusted for bonus elements in ordinary shares issued during the reporting period and excluding treasury shares.

Diluted Earnings Per Share Accounting Policy

Diluted EPS adjusts the figures used in the determination of basic EPS to take into account:

- the after income tax effect of any interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

SECTION 3: INVESTMENT PORTFOLIO AND CAPITAL

Overview

This section provides insights into the Group's exposure to market and financial risks, and outlines how these risks are managed. This section also describes how the Group's capital is managed.

Note 7: Investment portfolio

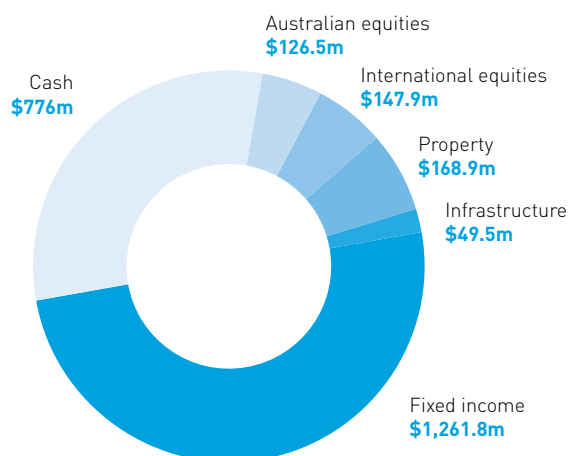
This note contains information on the Group's net investment income and the carrying amount of the Group's investments.

Medibank's investments reflect the Board-approved Capital Management Policy which outlines risk appetite, the expected risks and returns of different asset classes, APRA regulatory requirements, and the need for stability and liquidity of its capital base. Consequently, Medibank's investment portfolio is skewed towards defensive (less risky and generally lower returning) assets rather than growth (riskier but potentially higher returning) assets.

The long-term target asset allocation remains at 25%/75% for growth and defensive assets. In the current financial period, in light of financial market conditions, the Board has decided to adjust for the short term the target asset allocation to 20%/80%.

The Group's investment portfolio comprises the following:

	Portfolio composition 2017	Portfolio composition 2016	Target asset allocation
Growth			
Australian equities	5.0%	7.4%	5.0%
International equities	5.8%	7.9%	6.0%
Property ⁽ⁱ⁾	6.7%	6.2%	7.0%
Infrastructure	2.0%	3.0%	2.0%
	19.5%	24.5%	20.0%
Defensive			
Fixed income ⁽ⁱⁱ⁾	49.8%	49.3%	52.0%
Cash ⁽ⁱⁱⁱ⁾	30.7%	26.2%	28.0%
	80.5%	75.5%	80.0%
	100.0%	100.0%	100.0%



For investment portfolio classification purposes:

(i) Property includes land and buildings (\$27.2 million).

(ii) Fixed income excludes cash with maturities between 3 – 12 months (\$310.8 million).

(iii) Cash comprises cash and cash equivalents (\$594.6 million), cash with maturities between 3 – 12 months (\$310.8 million) less cash held for day-to-day operations of the business (\$129.4 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

30 June 2017

Note 7: Investment portfolio continued

Assets Backing Insurance Liabilities: Financial Assets at Fair Value Through Profit or Loss Accounting Policy

The Group classifies its investments in listed and unlisted securities as financial assets that back insurance liabilities and are therefore designated at fair value on initial recognition. Transaction costs relating to these financial assets are expensed in the consolidated statement of comprehensive income. These assets are subsequently carried at fair value, with gains and losses recognised within net investment income in the consolidated statement of comprehensive income.

The Group has determined that the financial assets attributable to its health benefits fund that have a quoted market price in an active market or whose fair value can be reliably measured, are financial assets permitted to be designated as assets backing insurance liabilities of its private health insurance fund. Financial assets that are designated at fair value through profit or loss, consist of externally managed equity trusts and direct mandates, and an internally managed fixed income portfolio.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Key judgement and estimate

The measurement of fair value may in some cases be subjective, and investments are categorised into a hierarchy, depending on the level of subjectively involved. The hierarchy is described in (b).

The fair value of level 2 financial instruments is determined using a variety of valuation techniques which make assumptions based on market conditions existing at the end of each reporting period. Valuation methods include quoted market prices or dealer quotes for similar instruments, yield curve calculations using the mid yield, vendor or independent developed models.

(a) Net investment income

Net investment income is presented net of investment management fees in the consolidated statement of comprehensive income.

	2017 \$m	2016 \$m
Interest	43.8	46.7
Trust distributions	41.4	37.7
Dividend income	-	3.4
Investment management fees	(4.0)	(3.6)
Net gain/(loss) on fair value movements on financial assets	37.6	(30.3)
Net gain on disposal of financial assets	20.5	5.4
	139.3	59.3

Net Investment Income Accounting Policy

Gains or losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category are presented in the statement of comprehensive income within net investment income in the period in which they arise.

Dividend income and trust distribution income derived from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income as part of net investment income when the Group’s right to receive payments is established. Interest income from these financial assets accrues using the effective interest method and is also included in net investment income.

(b) Fair value hierarchy

The fair value of the Group’s investments are measured according to the following fair value measurement hierarchy:

- Level 1: Quoted prices (unadjusted current bid price) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

30 June 2017

The following tables present the Group's financial assets measured and recognised at fair value on a recurring basis.

At 30 June 2017	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
Financial assets at fair value through profit or loss				
Australian equities ⁽ⁱ⁾	-	126.5	-	126.5
International equities ⁽ⁱ⁾	-	147.9	-	147.9
Property	1.8	139.9	-	141.7
Infrastructure	-	49.5	-	49.5
Fixed income	100.3	1,472.2	-	1,572.5
	102.1	1,936.0	-	2,038.1

At 30 June 2016	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
Financial assets at fair value through profit or loss				
Australian equities ⁽ⁱ⁾	-	179.9	-	179.9
International equities ⁽ⁱ⁾	-	191.5	-	191.5
Property	1.6	126.1	-	127.7
Infrastructure	-	71.9	-	71.9
Fixed income	145.2	1,299.6	-	1,444.8
	146.8	1,869.0	-	2,015.8

(i) Australian and international equities are categorised within level 2 of the fair value measurement hierarchy as they are indirectly held through unit trusts.

The Group's other financial instruments, being trade and other receivables and trade and other payables, are not measured at fair value. The fair value of these instruments has not been disclosed, as due to their short-term nature, their carrying amounts are assumed to approximate their fair values.

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis at 30 June 2017.

The Group recognises transfers into and transfers out of fair value hierarchy levels from the date of effect of the transfer.

Note 8: Financial risk management

This note reflects risk management policies and procedures associated with financial instruments and capital and insurance contracts. The Group's principal financial instruments comprise cash and cash equivalents, which are short-term money market instruments, fixed income (floating rate notes, asset-backed securities, syndicated loans, fixed income absolute return funds and hybrid investments), property, infrastructure, Australian equities and international equities.

The positions in these financial instruments are determined by Board policy. A strategic asset allocation is set and reviewed at least annually by the Board, which establishes the maximum and minimum exposures in each asset class. Transacting in individual instruments is subject to delegated authorities and an approval process which is also established and reviewed by the Investment and Capital Committee. At no time throughout the period will trading of derivative instruments for purposes other than risk management be undertaken, unless explicitly approved by the Investment and Capital Committee. The Group was in compliance with this policy during the current and prior financial year.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, price risk, credit risk and liquidity risk. The Group uses different methods to measure and manage these risks. These include monitoring levels of exposure to interest rate, price risk and foreign exchange risk. In analysing exposure to these risks, the Group considers interest rate expectations, potential renewals of existing positions, and any expected changes in asset allocation. Ageing analysis and monitoring of counterparty credit quality are undertaken to manage credit risk, whilst liquidity risk is monitored through future rolling cash flow forecasts. Equity price risk is managed through diversification and limit setting on investments in each country, sector and market.

Primary responsibility for consideration and control of financial risks rests with the Investment and Capital Committee under the authority of the Board. The Board reviews and agrees policies for managing each of the risks identified below, including the setting of limits for trading in derivatives, foreign currency contracts and other instruments. Limits are also set for credit exposure and interest rate risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

30 June 2017

Note 8: Financial risk management continued

(a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

(i) Interest rate risk

Description	<p>The risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.</p> <p>At the balance date, the Group had exposure to the risk of changes in market interest rates in respect of its cash and cash equivalents and fixed income investments. Both classes of financial assets have variable interest rates and are therefore, exposed to cash flow movements if these interest rates change. The Group constantly analyses its interest rate exposure, and resets interest rates on longer-term investments every 90 days on average.</p>														
Exposure	<p>At the balance date, the Group had the following financial assets exposed to Australian variable interest rate risk:</p> <table><tr><td></td><td>2017 \$m</td><td>2016 \$m</td></tr><tr><td>Cash and cash equivalents</td><td>594.6</td><td>438.7</td></tr><tr><td>Financial assets at fair value through profit or loss – fixed income</td><td>1,572.5</td><td>1,444.8</td></tr><tr><td></td><td>2,167.1</td><td>1,883.5</td></tr></table>				2017 \$m	2016 \$m	Cash and cash equivalents	594.6	438.7	Financial assets at fair value through profit or loss – fixed income	1,572.5	1,444.8		2,167.1	1,883.5
	2017 \$m	2016 \$m													
Cash and cash equivalents	594.6	438.7													
Financial assets at fair value through profit or loss – fixed income	1,572.5	1,444.8													
	2,167.1	1,883.5													
Sensitivity	<p>A 50 bps increase/decrease in interest rates for the entire reporting period, with all other variables remaining constant, would have resulted in a \$7.0 million increase/decrease to profit after tax (2016: \$6.3 million) and a \$7.0 million increase/decrease to equity (2016: \$6.3 million). The sensitivity analysis has been conducted using assumptions from published economic data.</p>														

(ii) Foreign currency risk

Description	<p>The risk that the fair value of a financial instrument will fluctuate because of changes in foreign exchange rates.</p> <p>The Group's investments in syndicated loans and infrastructure are externally managed and currency exposures are fully economically hedged by the fund manager. International equities are externally managed and approximately half of the foreign currency exposure is unhedged.</p> <p>The Group also has transactional currency exposures which arise from purchases in currencies other than the functional currency. These transactions consist of operational costs within trade and other payables which are minimal, and purchases of foreign currency denominated investments.</p>						
Exposure	<p>At 30 June 2017, the Group had the following net exposure to foreign currency movements:</p> <table><tr><td></td><td>2017 \$m</td><td>2016 \$m</td></tr><tr><td>Financial assets at fair value through profit or loss – international equities</td><td>76.4</td><td>91.6</td></tr></table> <p>The remaining balance of the international equities portfolio of \$71.5 million (2016: \$99.9 million) is not exposed to foreign currency movements.</p>		2017 \$m	2016 \$m	Financial assets at fair value through profit or loss – international equities	76.4	91.6
	2017 \$m	2016 \$m					
Financial assets at fair value through profit or loss – international equities	76.4	91.6					
Sensitivity	<p>A 10 percent increase/decrease in foreign exchange rates, with all other variables remaining constant, would have resulted in a \$5.9 million decrease/increase to profit after tax (2016: \$7.1 million) and a \$5.9 million decrease/increase to equity (2016: \$7.1 million). Balance date risk exposures represent the risk exposure inherent in the financial instruments.</p>						

(iii) Price risk

Description	<p>The risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.</p> <p>The Group is exposed to price risk in respect of its fixed income investments primarily due to movements in credit spreads. This risk is managed through active management of credit exposures and credit spread duration.</p> <p>The Group's equity price risk arises from investments in property, infrastructure, Australian equities and international equities. It is managed by setting and monitoring objectives and constraints on investments, diversification plans and limits on investments in each country, sector and market.</p>																																										
Sensitivity	<p>The following sensitivity analysis is based on the equity price risk exposures on average balances at balance date. It shows the effect on profit after tax and equity if market prices had moved, with all other variables held constant.</p> <table><tr><th></th><th colspan="2">Equity and profit after tax</th></tr><tr><th>Judgements of reasonably possible movements</th><th>2017 \$m</th><th>2016 \$m</th></tr><tr><td>Australian equities:</td><td></td><td></td></tr><tr><td>+10.0%</td><td>10.7</td><td>12.0</td></tr><tr><td>-10.0%</td><td>(10.7)</td><td>(12.0)</td></tr><tr><td>International equities:</td><td></td><td></td></tr><tr><td>+10.0%</td><td>11.9</td><td>13.2</td></tr><tr><td>-10.0%</td><td>(11.9)</td><td>(13.2)</td></tr><tr><td>Property:</td><td></td><td></td></tr><tr><td>+10.0%</td><td>9.4</td><td>8.5</td></tr><tr><td>-10.0%</td><td>(9.4)</td><td>(8.5)</td></tr><tr><td>Infrastructure:</td><td></td><td></td></tr><tr><td>+10.0%</td><td>4.2</td><td>5.0</td></tr><tr><td>-10.0%</td><td>(4.2)</td><td>(5.0)</td></tr></table> <p>In relation to fixed income investments, a 25 bps increase/decrease in credit spreads, with all other variables remaining constant, would have resulted in a \$5.8 million decrease/increase to profit after tax (2016: \$5.7 million) and a \$5.8 million decrease/increase to equity (2016: \$5.7 million). Balance date risk exposures represent the risk exposure inherent in the financial instruments.</p>		Equity and profit after tax		Judgements of reasonably possible movements	2017 \$m	2016 \$m	Australian equities:			+10.0%	10.7	12.0	-10.0%	(10.7)	(12.0)	International equities:			+10.0%	11.9	13.2	-10.0%	(11.9)	(13.2)	Property:			+10.0%	9.4	8.5	-10.0%	(9.4)	(8.5)	Infrastructure:			+10.0%	4.2	5.0	-10.0%	(4.2)	(5.0)
	Equity and profit after tax																																										
Judgements of reasonably possible movements	2017 \$m	2016 \$m																																									
Australian equities:																																											
+10.0%	10.7	12.0																																									
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Infrastructure:																																											
+10.0%	4.2	5.0																																									
-10.0%	(4.2)	(5.0)																																									

(b) Credit risk

(i) Cash and cash equivalents and financial assets at fair value through profit or loss

Description	<p>The risk of potential default of a counterparty, with a maximum exposure equal to the carrying amount of these instruments. Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, financial assets at fair value through profit or loss and trade and other receivables. Credit risk exposure is measured by reference to exposures by ratings bands, country, industry and instrument type.</p>
Exposure	<p>The Investment Management Policy limits the majority of internally managed credit exposure to A- or higher rated categories for long-term investments, and A2 or higher for short-term investments (as measured by external rating agencies such as Standard & Poor's). Departures from this policy and the appointment of external managers require Board approval.</p> <p>The Group does not have any financial instruments to mitigate credit risk and all investments are unsecured (except for covered bonds, asset-backed securities and mortgage-backed securities). However, the impact of counterparty default is managed through the use of Board approved limits by counterparty and rating and diversification of counterparties.</p>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

30 June 2017

Note 8: Financial risk management continued

(a) Market risk continued

(i) Cash and cash equivalents and financial assets at fair value through profit or loss

Sensitivity	The geographical concentration to Australian domiciled banks and corporations is managed through counterparty exposure limits. These limits specify that no more than 25 percent (2016: 25 percent) of the cash portfolio can be invested in any one counterparty bank and no more than 10 percent (2016: 10 percent) in any one counterparty corporate entity. In the Group's fixed income portfolio, the maximum amounts that can be invested in any one counterparty bank and any one counterparty corporate entity are 50 percent (2016: 50 percent) and 15 percent (2016: 15 percent) of the portfolio respectively. As at 30 June 2017 and 2016, the counterparty exposure of the Group was within these limits.
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(ii) Trade and other receivables

Description	Due to the nature of the industry and value of individual policies, the Group does not request any collateral nor is it the policy to secure its premiums in arrears and trade and other receivables. The Group regularly monitors its premiums in arrears and trade and other receivables, with the result that exposure to bad debts is not significant. The credit risk in respect to premiums in arrears, incurred on non-payment of premiums, will only persist during the grace period of 63 days as specified in the Fund Rules when the policy may be terminated. The Group is not exposed to claims whilst a membership is in arrears. Trade and other receivables are monitored regularly and escalated when they fall outside of terms. The use of debt collection agencies are also used to obtain settlement.
Exposure	There are no significant concentrations of premium credit risk within the Group.

(iii) Counterparty credit risk ratings

The following tables outlines the Group's credit risk exposure at 30 June 2017 by classifying assets according to credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range AAA to BBB are classified as non-investment grade. The table highlights the short-term rating as well as the equivalent long-term rating bands as per published Standard & Poor's correlations. The Group's maximum exposure to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets in the consolidated statement of financial position.

Short-term Long-term 2017	A-1+ AAA \$m	A-1+ AA \$m	A-1 A \$m	A-2 BBB \$m	B & below BB & below \$m	Not rated \$m	Total \$m
Assets							
Cash and cash equivalents	-	233.9	244.6	116.1	-	-	594.6
Premiums in arrears	-	-	-	-	-	8.4	8.4
Trade and other receivables	-	-	-	-	-	308.6	308.6
Financial assets							
Australian equities	-	-	-	-	-	126.5	126.5
International equities	-	-	-	-	-	147.9	147.9
Property	-	-	-	-	-	141.7	141.7
Infrastructure	-	-	-	-	-	49.5	49.5
Fixed income	88.1	688.8	276.1	175.1	42.7	301.7	1,572.5
Total	88.1	922.7	520.7	291.2	42.7	1,084.3	2,949.7

Within the not rated fixed income portfolio, \$272.2 million (2016: \$258.1 million) is invested in unrated unit trusts, of which the majority of the underlying securities held are investment grade assets and Senior Loans.

(iii) Counterparty credit risk ratings continued

Short-term Long-term 2016	A-1+ AAA \$m	A-1+ AA \$m	A-1 A \$m	A-2 BBB \$m	B & below BB & below \$m	Not rated \$m	Total \$m
Assets							
Cash and cash equivalents	15.0	150.7	173.3	94.2	-	5.5	438.7
Premiums in arrears	-	-	-	-	-	10.1	10.1
Trade and other receivables	-	-	-	-	-	303.0	303.0
Financial assets							
Australian equities	-	-	-	-	-	179.9	179.9
International equities	-	-	-	-	-	191.5	191.5
Property	-	-	-	-	-	127.7	127.7
Infrastructure	-	-	-	-	-	71.9	71.9
Fixed income	112.9	476.7	408.5	149.5	-	297.2	1,444.8
Total	127.9	627.4	581.8	243.7	-	1,186.8	2,767.6

Note 9: Working capital

(a) Capital management

The Company's health benefits fund is required to maintain sufficient capital to comply with APRA's solvency and capital adequacy standards. The solvency standard aims to ensure that the fund has enough cash or liquid assets to meet all of its liabilities as they become due, even if the cash flow is 'stressed'. The standard consists of a requirement to hold a prescribed level of cash, and also mandates a Liquidity Management Plan.

The capital adequacy standard aims to ensure that there is sufficient capital within a health benefits fund to enable the ongoing conduct of the business of the fund. The standard consists of a requirement to hold a prescribed level of assets to be able to withstand adverse experience, and also mandates a Capital Management Policy. The Capital Management Policy includes target capital levels, capital trigger points and corrective active plans.

The health benefits fund is required to comply with these standards on a continuous basis and report results to APRA on a quarterly basis. The fund has been in compliance with these standards throughout the year.

The Board has established a Capital Management Policy for the health benefits fund. Capital is managed against this policy and performance is reported to the Board on a monthly basis.

The Group's working capital balances are summarised in this note.

(b) Trade and other receivables

	Note	2017 \$m	2016 \$m
Premiums in arrears		13.7	13.6
Allowance for impairment loss		(5.3)	(3.5)
		8.4	10.1
Trade receivables		116.6	138.6
Allowance for impairment loss		(1.5)	(1.3)
		115.1	137.3
Government rebate scheme	(i)	126.2	126.6
Risk equalisation special account		29.0	17.7
Accrued revenue		35.8	17.8
Other receivables		2.5	3.6
		193.5	165.7
Total trade and other receivables		317.0	313.1

(i) Government rebate scheme is non-interest bearing and generally on 15-day terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

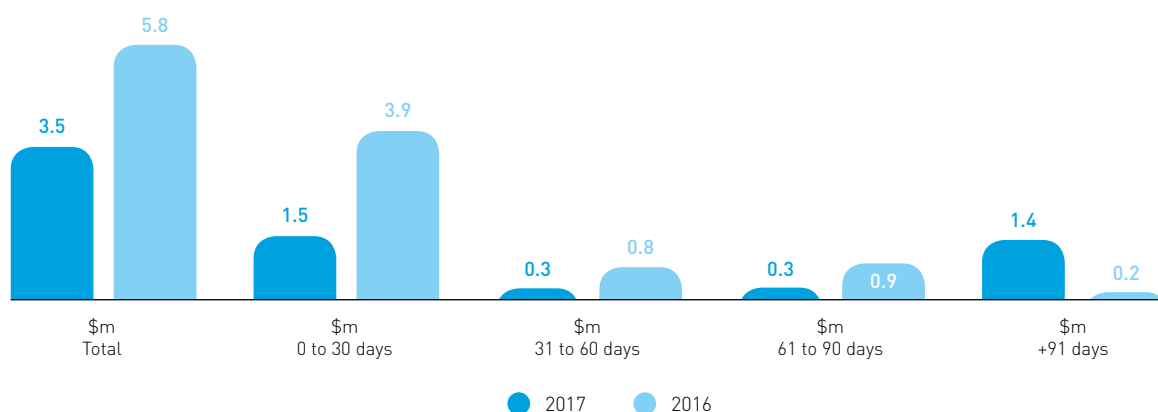
30 June 2017

Note 9: Working capital continued

(b) Trade and other receivables continued

(i) Past due but not considered impaired

Trade receivables



Trade receivables past due but not impaired at 30 June 2017 for the Group are \$3.5 million (2016: \$5.8million). Each business unit of the Group has reviewed their individual debtors and is satisfied that payment will be received in full.

Premiums in arrears past due but not impaired at 30 June 2017 for the Group are \$8.4 million (2016: \$10.1 million).

Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

Trade and Other Receivables Accounting Policy

Trade and other receivables are non-interest bearing and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment loss. Trade receivables are presented as current assets except for those with maturities greater than 12 months after the reporting period, which are classified as non-current assets. Trade receivables are generally due for settlement within 7 – 30 days.

Trade and other receivables are tested for impairment in accordance with the Impairment of Assets Accounting Policy in Note 22(c). Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Objective evidence of impairment for premiums in arrears is 63 days past due. Objective evidence of impairment for trade receivables and sundry debtors is 60 to 90 days past due.

The amount of the impairment loss on trade receivables is recognised within other expenses in the consolidated statement of comprehensive income. When a trade receivable for which an impairment allowance has been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of trade receivables previously written off are credited against other expenses in the statement of comprehensive income. The amount of the impairment loss on premiums in arrears is offset against premium revenue.

(c) Trade and other payables

	Note	2017 \$m	2016 \$m
Current			
Trade creditors	(i)	246.9	262.7
Other creditors and accrued expenses	(ii)	84.6	67.5
Lease incentives	(iii)	2.9	2.9
Other payables		0.4	0.8
		334.8	333.9
Non-current			
Lease incentives	(iii)	32.9	34.7
		32.9	34.7

Terms and conditions relating to the above financial instruments:

(i) Trade creditors are non-interest bearing and are normally settled up to 30 days.

(ii) Other creditors and accrued expenses are non-interest bearing.

(iii) Lease incentives are non-interest bearing and are settled over the term of the lease. The current liability represents 12 months or less of the term of the lease.

Trade and Other Payables Accounting Policy

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method. The amounts are unsecured and are presented as current liabilities unless payment is not due within 12 months from the reporting date.

(d) Reconciliation of profit after income tax to net cash flow from operating activities

	2017 \$m	2016 \$m
Profit for the year	449.5	417.6
Depreciation	13.6	15.4
Amortisation of intangible assets	38.0	23.2
Amortisation of deferred acquisition costs	33.9	25.2
(Gain)/loss on disposal of assets	1.9	0.4
Net realised gain on financial assets	(20.5)	(5.4)
Net unrealised (gain)/loss on financial assets	(37.6)	30.3
Interest income	(43.8)	(46.7)
Dividend income reinvested	-	(3.4)
Trust distribution reinvested	(41.4)	(37.7)
Investment expenses	4.0	3.6
Gain on sale of businesses	(5.5)	(4.2)
Settlement costs for sale of businesses	-	(19.8)
Non-cash share-based payment expense	2.3	3.7
Changes in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	(9.0)	(7.0)
(Increase)/decrease in deferred acquisition costs	(45.3)	(33.5)
(Increase)/decrease in other assets	(0.6)	(6.6)
Increase/(decrease) in deferred tax liabilities	14.7	6.3
Increase/(decrease) in trade and other payables	(4.1)	(51.3)
Increase/(decrease) in unearned premium liability	29.6	3.7
Increase/(decrease) in claims liabilities	(13.2)	7.0
Increase/(decrease) in income tax liability	21.7	37.0
Increase/(decrease) in provisions and employee entitlements	5.2	(5.5)
Net cash inflow from operating activities	393.4	352.3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

30 June 2017

Note 9: Working capital continued

(d) Reconciliation of profit after income tax to net cash flow from operating activities continued

Cash and Cash Equivalents Accounting Policy

Cash and cash equivalents in the consolidated statement of financial position are stated at fair value and include cash on hand, short-term bank bills and term deposits, commercial paper, negotiable certificate of deposit, and other short-term highly liquid investments with maturities of 3 months or less that are readily convertible to known amounts of cash and which are subject to an insignificant change in value.

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes all cash assets as described above, net of outstanding bank overdrafts.

(e) Liquidity risk

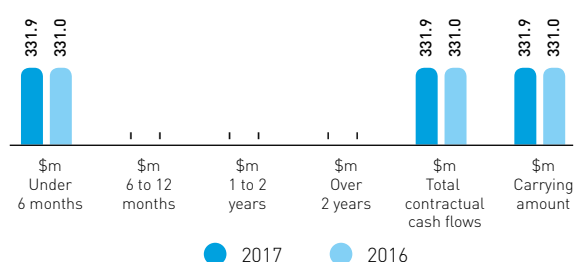
Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash commitments associated with financial instruments. It may result from either the inability to sell financial assets quickly at their fair values; or a counterparty failing on repayment of a contractual obligation; or insurance liability falling due for payment earlier than expected; or inability to generate cash inflows as anticipated.

In order to maintain appropriate levels of liquidity, the Group's target asset allocation is to hold at least 25 percent (2016: 25 percent) of its total investment assets in cash, maturing in 365 days or less.

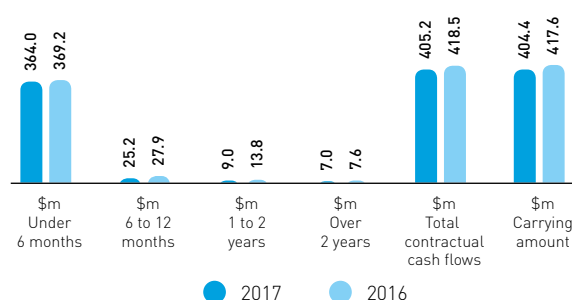
Trade payables and other financial liabilities mainly originate from the financing of assets used in ongoing operations such as property, plant and equipment and investments in working capital. These assets are considered by the Group in the overall liquidity risk. To monitor existing financial liabilities as well as to enable an effective overall controlling of future risks, the Group has established comprehensive risk reporting that reflects expectations of management of expected settlement of financial liabilities.

The graphs below reflect all contractually fixed pay-offs for settlement and interest resulting from recognised financial liabilities as at 30 June 2017, as well as the respective undiscounted cash flows for the respective upcoming fiscal years. Cash flows for financial liabilities without fixed amount or timing are based on the conditions existing at 30 June 2017.

Trade and other payables



Claims liabilities



It is not possible for a company primarily transacting in insurance business to predict the requirements of funding with absolute certainty. The theory of probability is applied on insurance contracts to ascertain the likely provision and the time period when such liabilities will require settlement. The amounts and maturities in respect of insurance liabilities are therefore, based on management's best estimate which incorporates statistical techniques and past experience.

Note 10: Contributed equity

(a) Movements in shares on issue

		Number of shares	\$ per share	\$m
1 July 2015	Opening balance	2,754,003,240	0.03	85.0
	Movements	-	-	-
30 June 2016 and 30 June 2017	Closing balance	2,754,003,240	0.03	85.0

(b) Terms and conditions of contributed equity

Fully paid ordinary shares are classified as contributed equity. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company, and in a winding up or reduction of capital, the right to repayment of the capital paid up on the shares.

Ordinary shares have the right to receive dividends and, in the event of winding up the Company or reduction of capital, have the right to participate in the distribution of the surplus assets of the Company.

Note 11: Reserves

Reserve	2017 \$m	2016 \$m	Nature and purpose of reserve
Equity reserve	17.8	17.8	During the 2009 financial year, the parent entity entered into a restructure of administrative arrangements, which gave rise to an equity reserve representing the difference between the book value of the net assets acquired from Medibank Health Solutions Pty Ltd (formerly Health Services Australia Pty Ltd) and the total purchase consideration.
Revaluation reserve	2.3	0.2	The revaluation reserve is used to record increments and decrements on the revaluation of non-current assets, as described in Note 12.
Share-based payment reserve	4.3	5.4	The share-based payments reserve is used to record the cumulative expense recognised in respect of performance rights issued to key management personnel. Refer to Note 17 for details.
Total	24.4	23.4	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

30 June 2017

SECTION 4: OTHER ASSETS AND LIABILITIES

Overview

This section provides insights into the operating assets used and liabilities incurred to generate the Group's operating result.

Note 12: Property, plant and equipment

	Land and buildings \$m	Plant and equipment \$m	Leasehold improvements \$m	Assets under construction \$m	Total \$m
2017					
Gross carrying amount					
Balance at 1 July 2016	25.5	33.9	82.0	0.2	141.6
Additions	0.4	0.2	1.7	3.2	5.5
Revaluations	1.3	-	-	-	1.3
Transfers in/(out)	-	-	-	(0.1)	(0.1)
Disposals	-	(8.7)	(2.4)	-	(11.1)
Balance at 30 June 2017	27.2	25.4	81.3	3.3	137.2
Accumulated depreciation and impairment					
Balance at 1 July 2016	(1.1)	(16.2)	(31.0)	-	(48.3)
Depreciation expense	(0.5)	(3.6)	(9.5)	-	(13.6)
Revaluations	1.6	-	-	-	1.6
Disposals	-	8.0	2.4	-	10.4
Balance at 30 June 2017	-	(11.8)	(38.1)	-	(49.9)
2016					
Gross carrying amount					
Balance at 1 July 2015	25.5	39.3	88.7	0.5	154.0
Additions	-	0.4	2.1	0.1	2.6
Transfers in/(out)	-	-	0.4	(0.4)	-
Disposals	-	(5.8)	(9.2)	-	(15.0)
Balance at 30 June 2016	25.5	33.9	82.0	0.2	141.6
Accumulated depreciation and impairment					
Balance at 1 July 2015	(0.6)	(19.3)	(28.0)	-	(47.9)
Depreciation expense	(0.5)	(2.7)	(12.2)	-	(15.4)
Disposals	-	5.8	9.2	-	15.0
Balance at 30 June 2016	(1.1)	(16.2)	(31.0)	-	(48.3)
Closing net book amount					
As at 30 June 2017	27.2	13.6	43.2	3.3	87.3
As at 30 June 2016	24.4	17.7	51.0	0.2	93.3

(a) Valuations of land and buildings

Land and buildings are shown at fair value, based on valuations that are performed every 3 years or when market conditions significantly change. The revaluations of the Group's land and buildings were last made in the current financial year and were based on independent assessments by external valuation experts who were members of the Australian Property Institute.

The valuation methodology reconciles the estimated value of the land and buildings under the capitalisation and the discounted cash flow approaches, and assumes a notional lease at market rent subject to normal commercial terms and conditions.

Under the capitalisation approach, the net market rental income as at the valuation date is capitalised at an appropriate market yield to estimate the value of the property. Under the discounted cash flow approach, the estimated future annual net cash flows over a notional lease term, including the expected terminal sales value, are discounted to present value.

The fair value of land and buildings is included in Level 3 in the fair value hierarchy.

Significant assumptions used in the valuation include:

	2017 %	2016 %
Capitalisation approach		
Core market yield	8.3	9.3
Discounted cash flow approach		
Discount rate	8.8	9.8
Terminal yield	9	9.5

An increase in either the yield and/or the discount rate would result in a decrease in the valuation of the property. Similarly, decreases in these inputs would result in an increase in the valuation. Based on the range of potential values for these inputs provided in the valuation report, there are no reasonably possible movements which would have a significant impact on the valuation.

(b) Carrying amounts that would have been recognised if land and buildings were stated at cost

If the land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2017 \$m	2016 \$m
Land and buildings		
Cost	28.1	28.1
Accumulated depreciation	(5.3)	(4.8)
Net book amount	22.8	23.3

(c) Capital expenditure commitments

	2017 \$m	2016 \$m
Capital expenditure contracted for at the end of the reporting period but not recognised as liabilities	0.7	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

30 June 2017

Note 12: Property, plant and equipment continued

(c) Capital expenditure commitments continued

Property, Plant and Equipment Accounting Policy

Land and buildings (none of which are investment properties) are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance costs are charged to the statement of comprehensive income during the reporting period in which they are incurred.

Increases in the carrying amounts arising on revaluation of land and buildings are recognised, net of tax, in other comprehensive income and accumulated in a reserve in equity. To the extent that the increase reverses a decrease previously recognised in the statement of comprehensive income, the increase is first recognised in the statement of comprehensive income. Decreases that reverse previous increases of the same assets are first recognised in other comprehensive income to the extent of the remaining surplus attributable to the asset; all other decreases are charged to the statement of comprehensive income.

Depreciation

Assets under construction are not depreciated until in use.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their costs or revalued amounts, net of any residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

Leasehold improvements	the lease term
Buildings	40 years
Plant and equipment	3 – 15 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Disposal

The gain or loss on disposal of non-current assets is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs). These gains or losses are included in the statement of comprehensive income. When revalued assets are sold, it is Group policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

Note 13: Intangible assets

	Goodwill \$m	Customer contracts and relationships \$m	Internally generated software ⁽ⁱ⁾ \$m	Acquired software ⁽ⁱ⁾ \$m	Assets under construction \$m	Total \$m
2017						
Gross carrying amount						
Balance at 1 July 2016	188.8	80.6	345.1	17.8	12.4	644.7
Additions	-	-	14.6	-	32.1	46.7
Transfers in/(out)	-	-	7.4	-	(7.4)	-
Disposals	-	(0.8)	(23.1)	-	-	(23.9)
Balance at 30 June 2017	188.8	79.8	344.0	17.8	37.1	667.5
Accumulated amortisation and impairment						
Balance at 1 July 2016	(81.5)	(50.0)	(182.7)	(17.6)	-	(331.8)
Amortisation expense	-	(7.0)	(30.8)	(0.2)	-	(38.0)
Transfers in/(out)	-	-	-	-	-	-
Disposals	-	0.8	22.6	-	-	23.4
Balance at 30 June 2017	(81.5)	(56.2)	(190.9)	(17.8)	-	(346.4)
2016						
Gross carrying amount						
Balance at 1 July 2015	199.5	82.1	222.2	17.9	74.0	595.7
Additions	-	-	0.6	0.2	74.8	75.6
Transfers in/(out)	-	-	136.4	-	(136.4)	-
Disposals	(10.7)	(1.5)	(14.1)	(0.3)	-	(26.6)
Balance at 30 June 2016	188.8	80.6	345.1	17.8	12.4	644.7
Accumulated amortisation and impairment						
Balance at 1 July 2015	(91.5)	(43.9)	(180.6)	(17.9)	-	(333.9)
Amortisation expense	-	(7.6)	(15.6)	-	-	(23.2)
Transfers in/(out)	-	-	(0.3)	0.3	-	-
Disposals	10.0	1.5	13.8	-	-	25.3
Balance at 30 June 2016	(81.5)	(50.0)	(182.7)	(17.6)	-	(331.8)
Closing net book amount						
As at 30 June 2017	107.3	23.6	153.1	-	37.1	321.1
As at 30 June 2016	107.3	30.6	162.4	0.2	12.4	312.9

(i) During the prior financial year, costs incurred in relation to Medibank's new customer relationship management system (known as 'DelPHI') were capitalised to internally generated software.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

30 June 2017

Note 13: Intangible assets continued

(a) Impairment tests for goodwill

Impairment Accounting Policy

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets called cash-generating units (CGUs). Goodwill is allocated to the Group's CGUs identified according to which CGU is expected to benefit from the synergies of the combination.

Below is a CGU-level summary of the Group's goodwill allocation and the key assumptions made in determining the recoverable amounts.

	2017			2016		
	Goodwill allocation \$m	Growth rate %	Discount rate %	Goodwill allocation \$m	Growth rate %	Discount rate %
Health Insurance	96.2	2.5	13.2	96.2	2.5	11.6
Medibank Health Telehealth	11.1	2.5	15.5	11.1	2.5	14.0

Health Insurance CGU

The recoverable amount of the Health Insurance CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on the Corporate Plan approved by the Board. Cash flows beyond the Corporate Plan period are extrapolated using the estimated growth rates, with a terminal value assumed in the calculations.

Medibank Health Telehealth CGU

The recoverable amount of the Medibank Health Telehealth CGU is based on a value-in-use calculation, which uses a 1 year cash flow projection per the Group's Corporate Plan approved by the Board. Cash flows that are beyond this period, but within the period that management can reliably estimate, are extrapolated using the estimated growth rates. No terminal value has been assumed in the calculations.

(b) Inputs and key assumptions used for recoverable amount calculations

The following key assumptions have been made in determining the recoverable amounts of the Group's CGUs:

Growth rates and discount rates	<p>The growth rate disclosed above represents the weighted average growth rate used to extrapolate cash flows beyond the budget period. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates as per industry forecasts.</p> <p>In performing the recoverable amount calculations for each CGU, the Group has applied post-tax discount rates to discount the forecast future attributable post-tax cash flows. The equivalent pre-tax discount rates are disclosed above. The discount rates used reflect specific risks relating to the relevant CGU.</p>
Health Insurance CGU	<ul style="list-style-type: none">• Forecast revenue comprising estimated change in the number of members and future premium revenue rate rises; and• Forecast claims and operating expenses.
Medibank Health Telehealth CGU	<ul style="list-style-type: none">• Forecast revenue for the market sector and specific forecasts for key customer contracts;• Forecast direct expenses and allocated corporate costs; and• Period over which to assess the forecasts.

The impact of reasonably possible changes are as follows:

Health Insurance CGU	<p>There are no reasonably possible changes in key assumptions that could have resulted in an impairment charge for the Health Insurance CGU in the current or prior financial year.</p>
Medibank Health Telehealth CGU	<p>The key assumption in the Medibank Health Telehealth CGU is the cash flow forecast. The ability to meet these cash flows, which are based on the Group's Corporate Plan, could impact the recoverability of the CGU. The business model of the CGU is contract based by nature and the forecast cash flows contain assumptions around expected contract renewals, new wins and losses.</p> <p>In estimating the recoverable amount of the CGU, the Group has used the approved Corporate Plan for the next financial year and extrapolated this for a period of 7 years, being the period over which management can reliably estimate the cash flows. This cash flow estimate assumes that current contract renewal options will be exercised by the customers. This assumption is based on management's past experience and knowledge of the market in which the CGU operates.</p>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

30 June 2017

Note 13: Intangible assets continued

(c) Capital expenditure commitments

Intangible asset capital expenditure commitments as at 30 June 2016 related to committed expenditure in respect of the development of new software. The majority of the work has been completed during the 2017 financial year.

	2017 \$m	2016 \$m
Capital expenditure contracted for at the end of the reporting period but not recognised as liabilities	4.3	11.8

Intangible Assets Accounting Policy

	Accounting policy	Key estimates
Goodwill	<p>Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.</p> <p>Goodwill is allocated to CGUs for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose.</p>	<p>On an annual basis, the Group tests whether goodwill has suffered any impairment.</p> <p>In assessing goodwill for impairment, the recoverable amounts of CGUs have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to Note 13(b) above for details of these assumptions.</p>
Software	<p>Costs incurred in acquiring software and licences that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software intangibles. Costs capitalised include external direct costs of materials and service and direct payroll and payroll-related costs of employees' time spent on the project. Software intangibles are carried at cost less accumulated amortisation and impairment losses.</p> <p>Amortisation is calculated on a straight-line basis over the expected useful lives of the software, generally estimated to have a useful life of 1.5 to 7 years. Amortisation is recognised in depreciation and amortisation expense in the statement of comprehensive income.</p>	<p>The Group's management determines the estimated useful lives and related amortisation charges for its software and technology. This estimate is based on projected product lifecycles and could change significantly as a result of technical innovations and competitor actions. Where software and technology is purchased or developed to enter new or uncertain but strategically important markets it is expensed as incurred. The useful lives of the Group's software are outlined above.</p>
Customer contracts and relationships	<p>Customer contracts and relationships acquired as part of a business combination are recognised separately from goodwill. The customer contracts and relationships are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation of customer contracts and relationships is calculated on a straight-line basis over the expected useful lives, which for assets currently owned by the Group is 10 to 12 years and is recognised in depreciation and amortisation expense in the statement of comprehensive income.</p>	<p>Customer contracts and relationships are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.</p> <p>A key assumption in testing customer contracts and relationships for impairment is the retention of the underlying contracts. Assumptions are made around renewal of these contracts and associated cash flows based on contracted renewal options and the Group's commercial and strategic long-term plans.</p>

Note 14: Provisions and employee entitlements

(a) Employee entitlements

(i) Employee entitlements

	2017 \$m	2016 \$m
Employee entitlements		
Current	34.1	33.0
Non-current	16.2	14.9
Total employee entitlements	50.3	47.9

This provision incorporates annual leave, long service leave, termination payments and bonus plans.

(ii) Employee benefits expense

Included in the Group's employee benefits expense are the following:

	2017 \$m	2016 \$m
Defined contribution superannuation expense	23.5	21.2
Other long-term benefits expense	3.1	3.0
Termination benefits expense	3.8	5.0
Share-based payment expense	2.3	3.6

Employee Entitlements Accounting Policy

Short-term obligations	Liabilities for wages and salaries, including non-monetary benefits, are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.
Other long-term employee benefit obligations – key estimate	Liabilities for employee entitlements includes long service leave and annual leave which are not expected to be settled wholly within 12 months after the end of the period. The liabilities are measured at the present value of expected future payments using the projected unit credit method, taking into account expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period using corporate bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows. The obligations are presented as current liabilities in the consolidated statement of financial position if the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.
Bonus plans	The Group recognises a liability for bonuses based on a formula that takes into consideration the performance of the employee against targeted and stretch objectives, the profit of the Group and other financial and non-financial key performance indicators. The Group recognises a provision when it is contractually obliged or where there is a past practice that has created a constructive obligation.
Termination benefits	Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the Group recognises costs for a restructuring that is within the scope of AASB 137 Provisions, Contingent Liabilities and Contingent Assets and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

30 June 2017

Note 14: Provisions and employee entitlements continued

(b) Provisions

	Restructuring \$m	Make good \$m	Medical services \$m	Other \$m	Total \$m
Balance at 1 July 2016	9.3	6.3	9.1	23.7	48.4
Additional provision	1.4	0.2	11.4	14.9	27.9
Amounts utilised during the year	(5.4)	(0.5)	(8.9)	(8.9)	(23.7)
Reversal of unused provision	(2.0)	(1.4)	-	(0.7)	(4.1)
Balance at 30 June 2017	3.3	4.6	11.6	29.0	48.5
Balance comprised of:					
Current	3.3	2.2	11.6	19.1	36.2
Non-current	-	2.4	-	9.9	12.3

(i) Restructuring provision

The restructuring provision relates to onerous lease provisions which were raised as part of a significant restructuring programme undertaken by the Group in 2014, and redundancy costs associated with various restructuring programs.

Onerous lease provisions are included in the restructuring provision where they relate to space that the Group will no longer continue to utilise as a result of undertaking a restructuring program. Onerous lease provisions which do not arise from restructuring programs are classified as other provisions.

(ii) Make good provision

In accordance with certain lease agreements, the Group is obligated to restore leased premises to their original condition at the end of the lease term. Due to the long-term nature of the liability, there is uncertainty in estimating the ultimate amount of these costs. The provision has been discounted to take into account the time value of money throughout the remaining term of the lease.

(iii) Medical services provision

This provision relates to the estimated cost of sub contracted medical services incurred but not settled or processed at balance date.

The estimated cost was calculated utilising a number of inputs including the number of invoices on hand, an estimate of the invoices not yet received, the average past invoice value or contractual price and the mix of medical service providers.

(iv) Other provision

The other provision includes estimated commissions payable to third parties in relation to the acquisition of health insurance contracts, which becomes payable once certain criteria are met, an onerous lease provision recognised on one of the Group's properties which did not arise as a result of a restructuring program, and other provisions that have arisen in course of business which do not require separate disclosure.

Provisions Accounting Policy

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Expected future payments are discounted using market yields at the end of the reporting period using corporate bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows. The increase in the provision due to the passage of time is recognised as interest expense.

(c) Contingent liabilities

On 16 June 2016, the Australian Competition and Consumer Commission (ACCC) issued proceedings in the Federal Court of Australia against Medibank Private Limited. The ACCC alleged that Medibank engaged in misleading and deceptive conduct, made false representations and representations liable to mislead the public, and engaged in unconscionable conduct by failing to notify members of changes to contractual arrangements with a number of in-hospital diagnostic service providers. The matter was heard by the court over 12 days between 14 March and 7 April 2017 and judgement was reserved. Medibank defended these allegations. The delivery of the judgement is a matter for the court and the range of possible outcomes from these proceedings is a judgement in Medibank's favour through to judgement in the ACCC's favour resulting in penalties to Medibank as determined by the court.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

30 June 2017

SECTION 5: OTHER

Overview

This section includes additional information that must be disclosed to comply with Australian Accounting Standards, the Corporations Act 2001 and the Corporations Regulations.

Note 15: Income tax

Tax consolidation legislation

Medibank and its wholly owned Australian controlled entities are members of a tax consolidated group. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are offset in the consolidated financial statements.

The entities in the tax consolidated group entered into a tax sharing agreement which limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Medibank.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Medibank for any current tax payable and are compensated by Medibank for any current tax receivable.

(a) Income tax expense

	2017 \$m	2016 \$m
Current tax	171.4	154.7
Deferred tax	9.7	0.3
Adjustment for tax of prior period ⁽ⁱ⁾	(1.9)	(26.3)
	179.2	128.7

(i) Medibank was successful in having a change in tax position for prior periods endorsed by the Australian Taxation Office in December 2015 resulting in a previously unclaimed tax deduction of \$23.2 million being allowed.

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2017 \$m	2016 \$m
Profit for the year before income tax expense	628.7	546.3
Tax at the Australian tax rate of 30% (2016: 30%)	188.6	163.9
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Entertainment	0.2	0.2
Non assessable gains on disposal	(0.9)	(0.4)
Tax offset for franked dividends	(3.2)	(2.2)
Sundry items	(3.6)	(6.5)
	181.1	155.0
Adjustment for tax of prior period	(1.9)	(26.3)
Income tax expense	179.2	128.7

(c) Deferred tax assets and liabilities

	2017 \$m	2016 \$m
Deferred tax balances comprise temporary differences attributable to items:		
<i>Recognised in the income statement</i>		
Trade and other receivables	1.3	(0.3)
Financial assets at fair value through profit or loss	(24.2)	(16.5)
Other assets	(26.6)	(22.8)
Property, plant and equipment	5.5	4.6
Intangible assets	(26.4)	(25.0)
Employee entitlements	16.2	15.8
Provisions and other payables	25.8	29.8
Business capital costs	1.1	1.6
	(27.3)	(12.8)
<i>Recognised directly in other comprehensive income</i>		
Revaluation of land and buildings	(1.0)	(0.1)
Share-based payment reserve	0.1	-
Actuarial loss on retirement benefit obligation	0.8	1.0
	(0.1)	0.9

Income Tax Accounting Policy

Current Taxes Accounting Policy

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation, and establishes provisions where appropriate.

Deferred Taxes Accounting Policy

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of each reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax is provided on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements, other than for the following:

- Where they arise from the initial recognition of goodwill;
- Where they arise from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss; or
- For temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Offsetting balances

Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

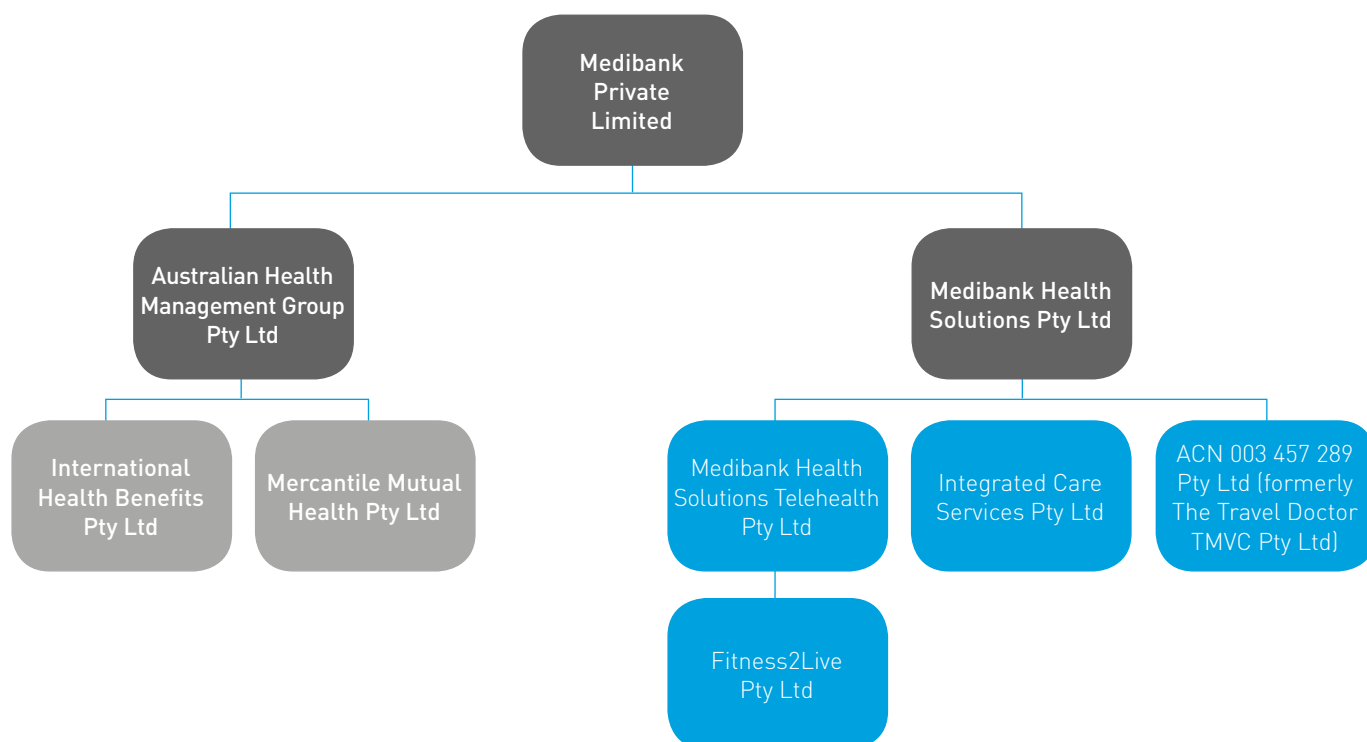
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

30 June 2017

Note 16: Group structure

(a) Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries, which are 100 percent owned.



● These entities were non-operating entities during the financial years ended 30 June 2016 and 2017.

● These subsidiaries are wholly owned by Medibank Health Solutions Pty Ltd and have been granted relief from the necessity to prepare financial reports in accordance with the ASIC Class Order 98/1418. For further information refer to the Medibank Health Solutions Pty Ltd Annual Report.

- (i) Carelink Australia Pty Ltd, a non-operating entity wholly owned by Australian Health Management Group Pty Ltd, was deregistered on 16 November 2016.
- (ii) Dencare Australia Pty Ltd, Medibank Asia Pte Ltd and Medibank Health Singapore Pte Ltd were non-operating entities during the financial years ended 30 June 2016 and 2017, and have been deregistered subsequent to 30 June 2017.
- (iii) On 3 July 2017, Medibank Health Solutions Pty Ltd acquired a 100 percent interest in Fortis HS Holdings Pty Ltd ("HealthStrong"). The acquisition included 3 non-operating entities wholly owned by HealthStrong. Refer to Note 21 for further information.

Principles of Consolidation Accounting Policy

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred and the liabilities incurred. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired, is recorded as goodwill.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

(b) Parent entity financial information

(i) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2017 \$m	2016 \$m
Balance sheet		
Current assets	2,836.6	2,650.6
Total assets	3,370.3	3,169.3
Current liabilities	1,475.7	1,408.5
Total liabilities	1,691.4	1,608.6
<i>Shareholders' equity</i>		
Issued capital	85.0	85.0
Reserves		
Equity reserve	6.3	6.3
Revaluation reserve	3.9	1.8
Share-based payment reserve	4.3	5.4
Retained earnings	1,579.4	1,462.2
	1,678.9	1,560.7
Profit for the year	427.1	405.9
Total comprehensive income	429.2	405.9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

30 June 2017

Note 16: Group structure continued

(b) Parent entity financial information continued

(ii) Guarantees entered into by parent entity

The parent entity has provided guarantees in respect of service obligations assumed by members of the Group. No liability has been recognised in relation to these guarantees by the parent entity or the Group as the fair value of the guarantees is immaterial.

(iii) Contingent liabilities of the parent entity

Refer to Note 14(c) for details of the contingent liability of the parent entity.

(iv) Contractual commitments for the acquisition of property, plant and equipment

As at 30 June 2017, the parent entity had \$0.7 million in contractual commitments for the acquisition of property, plant or equipment totalling (2016: nil). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

Parent Entity Financial Information Accounting Policy

The financial information for the parent entity, Medibank, has been prepared on the same basis as the consolidated financial statements, except as set out below:

- Investments in subsidiaries are accounted for at cost less accumulated impairment losses in the financial statements of Medibank; and
- Assets or liabilities arising under tax funding arrangements with the tax consolidated entities are recognised by Medibank as current assets or current liabilities.

(c) Related party transactions

Certain key management personnel hold director positions in other entities, some of which transacted with the Group during the 2017 financial year. All transactions that occurred were in the normal course of business. The terms and conditions of the transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis. There have been no loans to directors or specified executives during the current or prior financial years.

Note 17: Share-based payment

(a) Share-based payment arrangements

Performance rights to acquire shares in the Company are granted to Executive Leadership Team (ELT) members as part of Medibank's short-term incentive (STI) and long-term incentive (LTI) plans. The plans are designed to:

- align the interests of employees participating in the plan more closely with the interests of shareholders by providing an opportunity for those employees to receive an equity interest in Medibank through the granting of performance rights; and
- assist in the motivation, retention and reward of ELT members.

Performance rights granted do not carry any voting rights.

(i) LTI offer

Under the LTI Plan, performance rights were granted to members of the ELT as part of their remuneration. Performance rights granted under the LTI Plan are subject to the following performance hurdles:

- 50 percent of the performance rights will be subject to a vesting condition based on Medibank's absolute EPS CAGR (earnings per share compound annual growth rate) over the performance period; and
- 50 percent of the performance rights will be subject to a relative total shareholder return (TSR) vesting condition, measured over the performance period against a comparator group of companies.

Both performance hurdles under the LTI Plan have threshold levels which need to be achieved before vesting commences. Details of these thresholds are outlined in the remuneration report. The vesting conditions for the performance rights in the 2015 grant will be tested over a performance period commencing on 1 December 2014 and ending on 30 June 2017. The vesting conditions for performance rights in subsequent grants will be tested over a 3-year performance period commencing on 1 July of the relevant period. The vesting conditions must be satisfied for the performance rights to vest. On satisfaction of the vesting conditions, each performance right will convert into a fully paid ordinary share on a one-for-one basis.

The number of rights granted in the 2017 grant was determined based on the monetary value of the LTI award, divided by the volume weighted average share price over the 10 trading days leading up to the start of the performance period (\$2.84).

(ii) Annual STI offer

Under the Group's STI Plan, 50 percent of STI awarded to ELT members is paid in cash after the announcement of financial results. The remaining 50 percent is deferred for 12 months in the form of performance rights granted under the Performance Rights Plan. Vesting of deferred performance rights is conditional on the participant remaining employed by the Company until the end of the 12-month deferral period.

On vesting of the performance rights, each performance right will convert into a share on a one-for-one basis, subject to any adjustment required to ensure that the participant receives a benefit equivalent to any dividends paid by Medibank during the deferral period.

The number of rights to be granted will be determined based on the monetary value of the STI award, divided by the volume weighted average share price over the 10 trading days up to and including the payment date of cash STI.

Share-based Payment Accounting Policy

The Group provides benefits to ELT members in the form of share-based payment, whereby ELT members render services in exchange for rights over shares (performance rights). These benefits are provided as part of the Group's STI and LTI plans.

The fair value of the performance rights is recognised as an employee benefits expense, with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the performance rights granted, which includes any market performance conditions and the impact of any non-vesting conditions, but excludes the impact of any service and non-market performance vesting conditions. Non-market vesting conditions are included in assumptions about the number of performance rights that are expected to vest.

The total expense is recognised over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At the end of each reporting period, the Group revises its estimates of the number of awards that are expected to vest based on the non-market vesting conditions. The impact of the revision to original estimates, if any, is recognised in profit or loss, with a corresponding adjustment to equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

30 June 2017

Note 17: Share-based payment continued

(b) Performance rights granted

Below is a summary of performance rights granted and forfeited under the LTI Plan during the current and previous financial years.

	Note	Number of equity instruments			
		EPS performance rights		TSR performance rights	
		2017	2016	2017	2016
Outstanding at 1 July		1,046,182	642,482	1,046,182	642,482
Granted		778,585	403,700	778,585	403,700
Forfeited	(i)	(86,568)	-	(86,569)	-
Outstanding at 30 June		1,738,199	1,046,182	1,738,198	1,046,182
Exercisable at 30 June		-	-	-	-

(i) Forfeited relates to instruments that lapsed on cessation of employment.

(c) Fair value of performance rights granted

Below is a summary of the fair values of the 2016 Plan and the 2017 Plan and the key assumptions used in determining the valuation. The fair value was determined in consultation with the Group's professional service advisors, KPMG including key inputs and the valuation methodology for the performance rights granted.

	Note	TSR performance rights		EPS performance rights	
		2017 grant	2016 grant	2017 grant	2016 grant
Grant date		1 March 2017	29 October 2015	1 March 2017	29 October 2015
Date of commencement of service period		1 July 2016	1 July 2015	1 July 2016	1 July 2015
Expected expiry date		30 June 2019	30 June 2018	30 June 2019	30 June 2018
Fair value at grant date		\$1.08	\$1.53	\$2.48	\$2.10
Share price at grant date		\$2.84	\$2.40	\$2.84	\$2.40
Dividend yield (per annum effective)		4.4%	3.8%	4.4%	3.8%
Risk free discount rate (per annum)		1.9%	1.8%	n/a	n/a
Valuation method		Monte Carlo simulation model	Monte Carlo simulation model	Black-Scholes option pricing methodology	Black-Scholes option pricing methodology
<i>Volatility assumptions (per annum)</i>	(i)				
Medibank		22%	22%	n/a	n/a
Comparator group average		25%	23%	n/a	n/a
Correlation between comparator companies' TSR		25%	30%	n/a	n/a

(i) The expected stock volatility is a measure of the amount by which the price is expected to fluctuate during a period. As Medibank's shares were not traded prior to listing on the ASX in the 2015 financial year, the expected stock volatility was based on that of a comparator group of companies, having regard to the historic monthly total share return volatility (where the Company has been listed for at least 3 years), current implied volatilities and consideration of future volatility expectations.

The fair value of the EPS performance rights granted under both plans was calculated using the Black-Scholes option pricing methodology. The fair value of these performance rights does not take into account the probability of the EPS performance hurdle being met, as it is a non-market related vesting condition. The fair value of the TSR performance rights under both plans was calculated using a Monte Carlo simulation model. The probability of the TSR performance hurdle being met is taken into account in the fair value of these performance rights, as it is a market-related vesting condition.

Note 18: Key management personnel remuneration

The names of persons who were directors and specified executives of the Group at any time during the financial year are disclosed in the directors' report. Except where indicated, all of these persons were also directors and specified executives during the year ended 30 June 2017. Detailed remuneration disclosures are provided in the remuneration report.

	2017 \$	2016 \$
Short-term benefits	7,878,147	6,429,507
Post-employment benefits	317,495	268,582
Long-term benefits	295,531	445,841
Termination benefits	345,000	595,173
Share-based payments	2,347,181	3,659,848
	11,183,354	11,398,951

Note 19: Commitments



Operating leases are entered into as a means of acquiring access to corporate and retail property, office equipment and motor vehicles. Rental payments are generally fixed, with differing clauses to adjust the rental to reflect increases in market rates. These clauses include fixed incremental increases, market reviews and inflation escalation clauses during a lease on which contingent rentals are determined. For the majority of operating leases for retail property there are renewal options. Purchase options exist in relation to operating leases for motor vehicles at the end of their term. Renewal and purchase options exist in relation to operating leases for office equipment. No operating leases contain restrictions on financing or other leasing activities. The Group leases unused office space under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights.

Leases Accounting Policy

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Lease incentives

In the event that lease incentives are received to enter into non-cancellable operating leases, such incentives are recognised as a liability. Lease payments are allocated between the rental expense and the reduction of the liability over the term of the lease.

Onerous lease contracts

The Group recognises a provision (refer to Note 14(b)) for losses on lease contracts when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the minimum net cost of exiting the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

30 June 2017

Note 20: Auditor's remuneration

During the year the following fees were paid or payable for services provided by the auditor of the Company, its related practices and non-related audit firms:

	Note	2017 \$	2016 \$
PricewaterhouseCoopers Australia (PwC):			
Amounts received or due and receivable by the Company's auditor for:			
– An audit or review of the financial report of the Company and any other entity within the Group		1,571,130	1,358,500
Other assurance services in relation to the Company and any other entity within the Group:			
– Audit of regulatory returns		119,500	119,500
Other services in relation to the Company and any other entity within the Group:			
– Other non-audit services	(i)	–	153,984
Total remuneration of PwC		1,690,630	1,631,984

(i) Other non-audit services in the prior year relate to reporting, tax and IT.

Note 21: Subsequent event

On 3 July 2017, Medibank Health Solutions acquired 100 percent of the ordinary shares in health services business Fortis HS Holdings Pty Ltd, trading as HealthStrong.

Total consideration transferred amounted to \$36.9 million in cash. HealthStrong was acquired as part of a strategic step towards our objective of providing broader health services to our customers at a time and location of convenience to them. The business will form part of the Medibank Health segment. The net assets acquired are approximately \$1.9 million with the balance of \$35.0 million expected to be recognised as intangible assets including goodwill on acquisition.

The Group has provisionally recognised the fair values of HealthStrong's identifiable assets and liabilities at 3 July 2017, based upon the best information available. On completion of the final valuations the balances for the acquisition may be revised in accordance with applicable Australian Accounting Standards.

Note 22: Other

(a) New and amended standards adopted

New or amended standards that became effective for the financial year ended 30 June 2017 did not have a material impact on the Group's accounting policies or on the consolidated financial report.

(b) New accounting standards and interpretations not yet adopted

Certain new accounting standards have been published that are not mandatory for 30 June 2017 reporting periods, but will be applicable to the Group in future reporting periods. The Group's assessment of the impact of these new standards is set out below.

(i) AASB 9: Financial Instruments (and subsequent amendments)

The revised standard addresses the classification, measurement and derecognition of financial assets and financial liabilities. All financial assets and liabilities are to be recognised at fair value with the exception of debt instruments with basic loan features that are managed on a contracted yield basis. As the Group currently classifies its investments at fair value through profit or loss, the Group does not expect this to have a material impact. The derecognition rules have been transferred from AASB 139 and have not been changed.

AASB 9 also introduces the expected credit losses model which is based on the concept of providing for expected impairment losses at inception of a contract. As the impairment requirements of AASB 9 do not apply to the financial assets at fair value through profit or loss, no significant impact is expected for the Group's investments.

The Group will be required to evaluate trade receivables for expected lifetime losses, if their credit risk has increased significantly since initial recognition, which is presumed to be the case for receivables that are more than 30 days past due. This is likely to result in the recognition of additional impairment losses by the Group, but based on the ageing profile of the amounts currently past due but not impaired (refer to Note 9(b)), the Group does not expect a significant impact on the financial statements.

Application date of standard:* 1 January 2018

Application date for the Group: 1 July 2018

* Application date is for the annual reporting periods beginning on or after the date stated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

30 June 2017

Note 22: Other continued

(ii) AASB 15: Revenue from contracts with customers

AASB 15 Revenue from Contracts with Customers was issued in May 2015 and is effective for reporting periods beginning on or after 1 January 2018. The Group currently plans to apply AASB 15 for the annual period beginning 1 July 2018.

The Group's Health Insurance premium revenue will be outside the scope of the standard, as these are accounted for under AASB 1023 General Insurance Contracts.

The Group has started an initial assessment of the potential impact on its consolidated financial statements. Our assessment of the potential impact based on current customer contracts indicates that there will not be a significant impact on revenue recognition. Any new contracts will need to be assessed individually as they occur. The Group expects to adopt the modified transitional approach to implementation where any transitional adjustment is recognised in retained earnings at the date of implementation of the standard without adjustment of comparatives. The new standard will only be applied to contracts in place at transition date.

We expect our disclosures around revenue recognised from contracts with customers may be expanded to ensure that the requirements of AASB 15 are met.

No transitional relief or practical expedients are currently expected to be applied, however this is still being assessed.

The Group has established a process for identification and analysis of new contracts in light of the requirements of AASB 15. This will continue to be refined leading up to application date.

(iii) AASB 16: Leases

AASB 16 Leases was issued in February 2016 and is effective for reporting periods beginning on or after 1 January 2019. The Group currently plans to apply AASB 16 initially for the annual period beginning 1 July 2019. The Group has not yet determined which transition approach to apply.

The Group has started an initial assessment of the potential impact on its consolidated financial statements. Our assessment of the potential impact based on current lease contracts confirmed that the Group will recognise new assets and liabilities for its operating leases of corporate offices and retail sites. In addition, the nature of expenses related to those leases will now change as AASB 16 replaces the straight line operating lease expense with a depreciation charge for right of use assets and interest expense on lease liabilities. The impact will likely cause some movements in overall expenses in the statement of comprehensive income broadly in line with contract renewal dates.

The Group has not yet quantified the impact on its reported assets and liabilities of adoption of AASB 16. The quantitative effect will depend on, inter alia, the transition method chosen, the extent to which the Group uses the practical expedients and recognition exemptions, and any additional leases that the Group enters into. The Group expects to disclose its transition approach and quantitative information before adoption.

The Group has arrangements which were not in the legal form of a lease, for which it concluded that the arrangement contains a lease of equipment under IFRIC 4. On transition the group will apply a practical expedient and not reassess whether a contract is, or contains, a lease.

(iv) AASB 17: Insurance Contracts

On 19 July 2017, Australian Accounting Standard Board issued AASB 17, incorporating the recently issued IFRS 17 Insurance Contracts. AASB 17 is applicable for accounting periods beginning on or after 1 January 2021 and on application, will replace AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts.

The Group has not yet had an opportunity to assess the impact of this new standard on the financial reports and the expected date of adoption have not yet been determined.

Other accounting standards or amendments that will become applicable in future reporting periods are not expected to have a material impact on the Group's accounting policies or on the consolidated financial report.

(c) Other accounting policies

Impairment of Assets Accounting Policy

Assets other than goodwill, are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (CGUs).

Financial Assets and Financial Liabilities Accounting Policy

The Group classifies its financial assets in the following categories: cash and cash equivalents, financial assets at fair value through profit or loss, and trade and other receivables. Management determines the classification of its financial assets at initial recognition and depends on the purpose for which the financial assets were acquired.

Purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

The Group's financial liabilities comprise trade and other payables. Financial liabilities are derecognised when the Group's contractual obligations are discharged, cancelled or expired.

Goods and Services Tax (GST) Accounting Policy

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated statement of financial position.

Cash flows are presented on a gross basis. The GST component of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority, are presented as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

DIRECTORS' DECLARATION

The directors declare that, in the opinion of the directors:

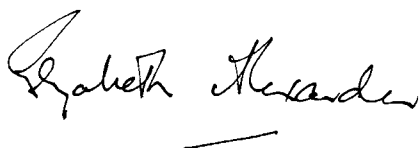
- (a) the financial statements and notes set out on pages 57 to 109 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) there are reasonable grounds to believe that the Company and the Group will be able to pay their debts as and when they become due and payable.

Note 1(b) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

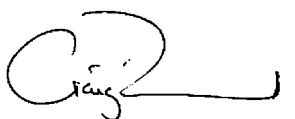
This declaration has been made after receiving the declarations required to be made to the directors by the Chief Executive Officer and Chief Financial Officer in accordance with section 295A of the *Corporations Act 2001* for the year ended 30 June 2017.

This declaration is made in accordance with a resolution of the directors.

On behalf of the Board,



Elizabeth Alexander AM
Chairman



Craig Drummond
Chief Executive Officer

25 August 2017
Melbourne

AUDITOR'S INDEPENDENCE DECLARATION



Auditor's Independence Declaration

As lead auditor for the audit of Medibank Private Limited for the year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Medibank Private Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'Chris Dodd', written over a light blue circular stamp.

Chris Dodd
Partner
PricewaterhouseCoopers

Melbourne
25 August 2017

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INDEPENDENT AUDITOR'S REPORT



Independent auditor's report

To the shareholders of Medibank Private Limited

Report on the audit of the financial report

Our opinion

In our opinion, the accompanying financial report of Medibank Private Limited (the Company) and its controlled entities (together the Group) is in accordance with *Corporations Act 2001*, including;

- a) giving a true and fair view of the Group's financial position as at 30 June 2017, and of its financial performance for the year then ended
- b) complying with Australian Accounting Standards and the *Corporation Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2017
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporation Act 2001* and the ethical requirements of the Accounting Professional and Ethic's Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

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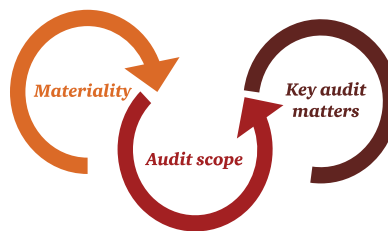
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Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the operations and management structure of the Group, its accounting processes and controls and the industry in which it operates.



Materiality	Audit scope	Key audit matters
<ul style="list-style-type: none"> For the purpose of our audit we used overall materiality of \$30.5 million, which represents approximately 5% of the Group's profit before tax. We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. We chose Group profit before tax because, in our view, it is the metric against which the performance of the Group is most commonly measured and is a generally accepted benchmark. We selected 5% based on our professional judgement noting that it is also within the range of commonly acceptable profit related thresholds 	<ul style="list-style-type: none"> Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. We performed: <ul style="list-style-type: none"> An audit of the most financially significant segment of the Group, being the private health insurance segment. Specific risk focused audit procedures over the complementary service segment. 	<ul style="list-style-type: none"> Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Management Committee: <ul style="list-style-type: none"> IT Renewal Programs Claims liability estimation Valuation of unlisted financial investments held at fair value These are further described in the <i>Key audit matters</i> section of our report.

INDEPENDENT AUDITOR'S REPORT

continued



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	How our audit addressed the key audit matter
<p>IT Renewal Programs</p> <p>The Group has recently completed an IT Renewal program to replace the core policy and customer relationship management systems. The Group is currently undertaking a further IT Renewal Program to consolidate its core operating systems covering the general ledger, procurement and payroll functions.</p> <p>We considered this a key audit matter due to the significance of the:</p> <ul style="list-style-type: none"> • system changes and underlying business processes and controls to the financial reporting process. In particular, the calculation and recognition of revenue by the Group's new core policy and customer relationship management system. • controls over the IT Renewal programs to ensure the changes to applications and data are appropriately authorised to mitigate the potential for fraud or error. 	<p>We developed an understanding of the Group's IT governance framework as well as the internal controls designed to mitigate the risk of fraud or error over:</p> <ul style="list-style-type: none"> • program development and changes • access to programs and data • data migration • business processes. <p>Together with PwC IT specialists we evaluated whether these controls were appropriately designed and operating effectively.</p> <p>To assess the calculation and recognition of revenue we performed the following procedures amongst others:</p> <ul style="list-style-type: none"> • Considered the design and operating effectiveness of relevant automated and manual controls over the revenue process. • Tested the system calculation for a sample of revenue transactions and agreed the corresponding amounts invoiced to customers with the related insurance policies and cash receipts.
<p>Claims liability estimation - \$404.40 million (Refer note 3(b))</p> <p>The liability for outstanding claims relates to claims incurred during the financial year but either not yet assessed or received by the Group at year end.</p> <p>The liability for outstanding claims is measured by the Group as a central estimate but, as is the case with any accounting estimate, there is a risk that the ultimate claims paid will differ from the initial estimates. A risk margin is therefore applied by the Group to reflect the uncertainty in the estimate. The central estimate and risk margin combined are intended to achieve an actuarially defined probability of adequacy (PoA) of 95%.</p>	<p>Our audit procedures included, amongst others, evaluating the design of the Group's relevant key controls over the claims reserving process (including data reconciliation, data inputs, data quality and management review of the estimates) and assessing whether these controls were operating effectively throughout the year.</p> <p>Together with PwC actuarial experts we:</p> <ul style="list-style-type: none"> • Evaluated whether the Group's actuarial methodologies were consistent with actuarial practices, and those used in the industry and in prior periods.



Key audit matter	How our audit addressed the key audit matter
<p>Approximately only 71% of claims relating to the last two months of the financial year are received at balance date. The Group is therefore required to estimate the liability for the claims incurred at balance date, but not yet reported or processed. Significant judgment is used in this process, in particular in estimating the:</p> <ul style="list-style-type: none"> • type and amount of claims incurred during the last two months of the financial year but not received or processed by year end • speed of processing claims by providers issuing claims on behalf of policyholders. <p>We considered this a key audit matter because of the significant judgements involved in estimating claims liabilities and because a small change in assumptions can result in a material change in the estimated liability.</p>	<ul style="list-style-type: none"> • Assessed the key actuarial assumptions used by the Group in forecasting expected claims, particularly those relating to the two months prior to the year-end (including expected member claiming patterns and estimated payment patterns). We compared the key actuarial assumptions to the Group's historical experience, current trends and our industry knowledge. In particular, we considered whether the assumptions used in the estimation process reflected observable market trends and claims processing speed. • Evaluated the claims received after the year end that related to the current financial year to determine whether the claims received indicate a material misstatement in the estimation of outstanding claims at the year end.
<p>Valuation of unlisted financial investments held at fair value (Refer note 7)</p> <p>The Group holds a significant portfolio of investments of which \$865.7m is invested in unlisted unit trusts at the balance date. These investments are carried at fair value with realised and unrealised gains or losses recognised through profit or loss.</p> <p>We considered this a key audit matter because the:</p> <ul style="list-style-type: none"> • investments in unlisted unit trusts at balance date are financially significant to the financial report. • valuation of these investments is performed by fund managers and a third party service organisation using the fair values of the underlying investments in the unit trusts. The fair values are based on inputs other than quoted prices that are observable for the asset or liability either directly or indirectly. These inputs are subject to judgements and other adjustments made by fund managers. 	<p>The Group uses a third party service organisation (Provider) for investment management and custodian services. We performed the following audit procedures, amongst others:</p> <ul style="list-style-type: none"> • Assessed our ability to place reliance on the Provider's independent auditor's report by considering the Provider's auditor's independence, experience, competency and the results of their audit procedures. • Read the Provider's auditor's report addressing the relevant controls over the valuation of financial instruments at the Provider. • Tested a sample of relevant controls in place at the Group's Treasury department addressing the valuation of unlisted unit trusts. • Developed an understanding of the nature of the unlisted unit trusts and their underlying investments as this impacts the valuation of the unit trusts. • Obtained the fund manager's statements for a sample of unlisted unit trusts and compared the net asset value reported against the latest available financial information and recent transactions within the unlisted unit trusts. • Performed testing over the frequency of pricing of unlisted unit trusts to determine if there were any stale prices which might impact the valuation of unlisted unit trusts.

INDEPENDENT AUDITOR'S REPORT

continued



Other information

The directors are responsible for the other information. The other information comprises the Operating and Financial Review and the Directors' Report (but does not include the financial report and our auditor's report thereon), which we obtained prior to the date of this auditor's report. We also expect other information to be made available to us after the date of this auditor's report, including the Financial Summary, Business Snapshot, Chairman's message, CEO's message and Governance, Directors, Executive Leadership Team, Corporate Governance Statement, Shareholders' Information, Financial Calendar and Corporate Directory.

Our opinion on the financial report does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information not yet received as identified above, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report, that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report, that give a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.



A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included within the directors' report for the year ended 30 June 2017.

In our opinion, the remuneration report of Medibank Private Limited for the year ended 30 June 2017 complies with the section 300A of the *Corporation Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report based on our audit conducted in accordance with the Australian Auditing Standards.

A stylized, handwritten signature of PricewaterhouseCoopers in black ink.

PricewaterhouseCoopers

A handwritten signature of Chris Dodd in black ink.

Chris Dodd
Partner

Melbourne
25 August 2017

A handwritten signature of Britt Hawkins in blue ink.

Britt Hawkins
Partner

SHAREHOLDER INFORMATION

The shareholder information below is current as at 25 August 2017.

Distribution of equity securities

Size of shareholding	Number of shareholders	Number of shares
1 – 1,000	48,868	45,267,550
1,001 – 5,000	179,337	516,923,232
5,001 – 10,000	21,336	147,681,860
10,001 – 100,000	10,646	231,483,148
100,001 and over	306	1,812,647,450
Total	260,493	2,754,003,240

Unmarketable parcels

There were 987 holdings of less than a marketable parcel (\$500) of shares (186 shares based on a market price of \$2.69 per share) and such holders held a total of 54,302 shares.

20 largest shareholdings

Name of holder	Number of shares	% of issued capital
1 HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	641,764,393	23.30
2 J P MORGAN NOMINEES AUSTRALIA LIMITED	410,921,705	14.92
3 CITICORP NOMINEES PTY LIMITED	203,668,941	7.40
4 NATIONAL NOMINEES LIMITED	125,116,477	4.54
5 HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	108,387,679	3.94
6 BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP AC>	62,918,449	2.28
7 BNP PARIBAS NOMS PTY LTD <DRP>	59,808,779	2.17
8 CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	27,845,649	1.01
9 HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 2	24,447,600	0.89
10 NATIONAL NOMINEES LIMITED <DB A/C>	17,811,123	0.65
11 HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	10,830,886	0.39
12 THE SENIOR MASTER OF THE SUPREME COURT <COMMON FUND NO 3 A/C>	6,500,000	0.24
13 AMP LIFE LIMITED	5,870,348	0.21
14 SBN NOMINEES PTY LIMITED <10004 ACCOUNT>	4,285,000	0.16
15 BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	4,024,636	0.15
16 IOOF INVESTMENT MANAGEMENT LIMITED <IPS SUPER A/C>	3,919,356	0.14
17 NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	3,382,678	0.12
18 NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	2,923,446	0.11
19 HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,297,600	0.08
20 CUSTODIAL SERVICES LIMITED <BENEFICIARIES HOLDING A/C>	2,287,550	0.08
Total	1,729,012,295	62.78

Substantial shareholders

As at 25 August 2017 the following holder had provided a substantial shareholding notice:

Name of holder	Number of shares	% of issued capital
BLACKROCK INC.	166,096,036	6.03

Voting rights

At a general meeting of the Company, every shareholder present in person or by proxy, attorney or representative has one vote on a show of hands and, on a poll, one vote for each share held.

On-market purchases of shares

1,469,078 Medibank ordinary shares were purchased on market for the purposes of Medibank's employee incentive schemes during the financial year ended 30 June 2017, at an average price of \$2.44.

On-market share buy-back

There is no current on-market share buy-back.

Ownership restriction

The Medibank Private Sale Act 2006 (Cth) ("MPSA") stipulates that no single person (aggregated with their associates) may hold more than a 15 percent stake in the Company (an "unacceptable ownership situation"). These restrictions will cease to apply on 1 December 2019, being five years after the Commonwealth's sale of its equity in the Company. Under the MPSA, the Company must take all reasonable steps to ensure that an unacceptable ownership situation does not arise.

The Constitution provides that a person must not enter into a transaction if it is likely to result in an unacceptable ownership situation. The Constitution also enables the Company to request information to determine if an unacceptable ownership situation exists or is likely to exist, and apply to the Court for relevant orders if an unacceptable ownership situation does exist.

Events subsequent to 25 August 2017

Subsequent to approving the financial statements, the Federal Court handed down judgment in the proceedings brought against Medibank by the Australian Competition and Consumer Commission (ACCC) on Wednesday 30 August 2017. The Court dismissed the ACCC's case, finding that Medibank did not engage in misleading and deceptive conduct and did not act unconscionably in relation to the communication with members about changes to arrangements with diagnostic service providers. The ACCC have 21 days from the date of the judgment to file an appeal.

FINANCIAL CALENDAR

Key dates

Full year results announcement	25 August 2017
Ex-dividend share trading commences	6 September 2017
Record date for final dividend	7 September 2017
Payment date for final dividend	28 September 2017
Annual general meeting	13 November 2017
Half year results announcement	February 2018
Payment date for interim dividend	March 2018

The above dates and payments are subject to confirmation. Any change will be notified to the Australian Securities Exchange (ASX).

CORPORATE DIRECTORY

Company

Medibank Private Limited

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Share registry

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www.computershare.com.au

medibank

Medibank Private Limited
ABN 47 080 890 259